



# Arco Vara AS

Interim report 3 quarter and 9 months 2009

**THIRD QUARTER AND 9 MONTHS 2009**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(UNAUDITED)**

Business name: Arco Vara AS

Registry code: 10261718

Address: Jõe 2b, 10151 Tallinn, Estonia

Tel. no: +372 6 144 630

Fax: +372 6 144 631

Email: info@arcovara.ee

Corporative Internet website: [www.arcorealestate.com](http://www.arcorealestate.com)

Core activities: Construction of buildings (EMTAK 41000)

Civil engineering (EMTAK 42000)

Specialised construction activities (EMTAK 43000)

Real estate activities (EMTAK 6800)

Financial year: 1 January 2009 – 31 December 2009

Reporting period: 1 January 2009 – 30 September 2009

Supervisory board: Richard Tomingas, Hillar-Peeter Luitsalu, Ragnar Meitern

Kalev Tanner, Aare Tark

Management board: Lembit Tampere

Auditor: Ernst & Young Baltic AS

**TABLE OF CONTENTS**

<b>MANAGEMENT REPORT FOR THE THIRD QUARTER AND NINE MONTHS OF 2009</b> .....	<b>3</b>
<b>CONDENSED CONSOLIDATED INCOME STATEMENT</b> .....	<b>19</b>
<b>STATEMENT OF FINANCIAL POSITION</b> .....	<b>21</b>
<b>CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT</b> .....	<b>22</b>
<b>CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGE IN EQUITY</b> .....	<b>23</b>
<b>NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS</b> .....	<b>24</b>
1. SIGNIFICANT ACCOUNTING POLICIES .....	24
2. SEGMENT REPORTING BY BUSINESS SEGMENTS .....	25
3. COST OF SALES .....	27
4. OTHER OPERATING ITEMS .....	27
5. SELLING AND DISTRIBUTION COSTS .....	28
6. ADMINISTRATIVE EXPENSES .....	29
7. FINANCIAL ITEMS .....	29
8. BASIC AND DILUTED EARNINGS PER SHARE .....	30
9. RECEIVABLES .....	31
10. INVENTORIES .....	31
11. TRANSACTIONS WITH PARTS OF SUBSIDIARIES, JOINT AND RELATED COMPANIES .....	32
12. INVESTMENT PROPERTY .....	33
13. PROPERTY, PLANT AND EQUIPMENT .....	33
14. INTANGIBLE ASSETS .....	34
15. LOANS AND BORROWINGS .....	35
16. PAYABLES AND OTHER LIABILITIES .....	36
17. TRANSACTIONS WITH RELATED PARTIES .....	37
18. CONTINGENT LIABILITIES .....	38
19. EVENTS AFTER THE REPORTING PERIOD .....	40
20. STRUCTURE OF THE GROUP .....	42
<b>STATEMENT BY THE MANAGEMENT BOARD</b> .....	<b>43</b>

## Management report for the third quarter and nine months of 2009

### GENERAL INFORMATION

Arco Vara AS and other companies of its Group (hereinafter Group) are engaged in various aspects of the real estate development that can be divided into three business lines: Service Division, Development Division and Construction Division.

As of end of the 3<sup>rd</sup> quarter 2009, the Group comprised 28 subsidiaries (2008 Q3: 34), 13 joint ventures (2008 Q3: 18) and 1 associates (2008 Q3: 1).

The performance of all divisions of the Group is subject to seasonal fluctuations. The transaction volumes of the Service Division are usually higher in autumn and spring than in summer and winter, while the turnover of the Construction Division and the investment volumes of the Development Division subside in the winter.

The principal activity of the Service Division is real estate brokerage, valuation, management, consulting and short-term investment in residential real estate.

The principal activity of the Development Division is developing integrated residential environments and commercial real estate. Fully developed housing solutions are sold to end-consumers. Commercial properties are developed until they start generating cash flow after which they are sold to a real estate fund or another developer. The Group holds some completed commercial properties that are yielding income from rent, but have not been sold yet as they have not been developed to their full potential.

The principal activity of the Construction division is offering general and subcontracting service and carrying out environmental engineering works.

Domestic markets of the Group are Estonia, Latvia, Bulgaria and Ukraine.

### Mission, ambition and common values

The mission of Arco Vara is **to be a valued provider of comprehensive real estate solutions.**

The ambition of Arco Vara is **to become a symbol of real estate.**

Core values of Arco Vara:

**Partnership** – our clients are our partners

**Reliability** – we are reliable, open and honest

**Professionalism** – we provide high-quality services

**Attendance** – we respect our client's personality

**Responsibility** – we keep our promises

**STRUCTURE OF THE GROUP**

Company	Country of location	Shareholding of the Group	
		30.09.2009	31.12.2008
%			
<b>Service segment</b>			
<b>Subsidiaries</b>			
Arco Real Estate EOOD <sup>1</sup>	Bulgaria	100	100
Arco Real Estate AS	Estonia	100	100
Arco Ukraina Valdused OÜ <sup>1</sup>	Estonia	75	75
Arco Vara Kinnisvarabüroo <sup>1</sup>	Estonia	100	100
Adepto SIA <sup>1</sup>	Latvia	80	80
Arco Real Estate SIA <sup>1</sup>	Latvia	80	80
Arco Neruhomist TOV <sup>1</sup>	Ukraine	75	75

Company	Country of location	Shareholding of the Group	
		30.09.2009	31.12.2008
%			
<b>Development segment</b>			
<b>Subsidiaries</b>			
Arco Invest EOOD <sup>1</sup>	Bulgaria	100	100
Arco Facility Management EOOD <sup>1</sup>	Bulgaria	80	-
Arco Project EOOD <sup>1</sup>	Bulgaria	100	100
Arco Bulgaaria OÜ <sup>1</sup>	Estonia	100	100
Arco Investeeringute AS	Estonia	100	100
Arco Vara Kinnistute AS <sup>1</sup>	Estonia	merged	100
Arco Vara Puukool OÜ <sup>1</sup>	Estonia	sold	100
Arco Vara Riia Valdused OÜ <sup>1</sup>	Estonia	100	100
Kerberon OÜ <sup>1</sup>	Estonia	100	100
Kolde AS <sup>1</sup>	Estonia	100	100
Pärnu Turg OÜ <sup>1</sup>	Estonia	100	100
Waldrop Investments OÜ <sup>1</sup>	Estonia	100	100
Wilson Kinnisvara OÜ <sup>1</sup>	Estonia	100	100
AD Saulkrasti SIA <sup>1</sup>	Latvia	50,4	50,4
Arco Development SIA <sup>1</sup>	Latvia	99,9	80
Ulmana Gatves Nami SIA <sup>1</sup>	Latvia	99,9	80
Arco Invest UAB <sup>1</sup>	Lithuania	100	100
Arco Development UAB <sup>1</sup>	Lithuania	100	100
Arco Capital SRL <sup>1</sup>	Romania	100	100
Arco Investments TOV <sup>1</sup>	Ukraine	75	75
<b>Jointly controlled entities</b>			
Arco HCE OÜ <sup>1</sup>	Estonia	50	50
Arco Vara Arenduse OÜ <sup>1</sup>	Estonia	50	50
Arco Vara Saare Kinnistud OÜ <sup>1</sup>	Estonia	50	50
Arco Ärikeskus OÜ <sup>1</sup>	Estonia	50	50
Chalwell OÜ <sup>1</sup>	Estonia	merged	50
Floriston Grupp OÜ <sup>1</sup>	Estonia	50	50
Kastner Grupp OÜ <sup>1</sup>	Estonia	50	50
Koduküla OÜ <sup>1</sup>	Estonia	50	50
Noland Grupp OÜ <sup>1</sup>	Estonia	merged	50
Pärnu Elumaja OÜ	Estonia	50	50
Redman Invest OÜ <sup>1</sup>	Estonia	merged	50
Snowden OÜ <sup>1</sup>	Estonia	50	50
Steadman OÜ <sup>1</sup>	Estonia	merged	50

Tallinna Olümpiapurjespordikeskus AS <sup>1</sup>	Estonia	50	50
Varamaad Kinnisvara OÜ <sup>1</sup>	Estonia	33,4	33,4
Bišumuižas Nami SIA <sup>1</sup>	Latvia	49,83	40
Sporting Riga SIA <sup>1</sup>	Latvia	49,83	40
<b>Related company</b>			
Gilmor Grupp OÜ (in the process of liquidation) <sup>1</sup>	Estonia	in the process of liquidation	20
Jüri Arendus OÜ <sup>1</sup>	Estonia	20	20
<b>Building segment</b>			
<b>Subsidiaries</b>			
Arco Ehitus OÜ	Estonia	100	100
Arco Construction SIA <sup>1</sup>	Latvia	55	55

<sup>1</sup> Shareholding through subsidiaries.

## CHANGES IN THE GROUP STRUCTURE

On 16 January 2009, Arco Investeeringute AS, a subsidiary of Arco Vara AS (shareholding of Arco Vara AS 100%) established the company Arco Facility Management EOOD, a subsidiary in Bulgaria that will provide complex property management services on the Bulgarian market.

Floriston OÜ, a 50% subsidiary of Arco Vara AS, has merged with its 100% subsidiaries Chalwell OÜ, Noland Grupp OÜ, Redman Invest OÜ and Steadman OÜ.

On 26.02.2009 OÜ Tempera Ehitus OÜ was declared bankrupt by a decision of the Harju County Court. Tempera Ehitus OÜ is not consolidated.

On 15.04.2009, Arco Investeeringute AS, a 100% subsidiary of Arco Vara AS merged its 100% subsidiary Arco Vara Kinnistute AS. As a result of merger, Arco Vara Kinnistute AS dissolved and Arco Investeeringute AS became its legal successor.

On 22.05.2009, Arco Investeeringute AS, a subsidiary of Arco Vara AS, increased its shareholding in the joint company Bišumuiža Nami SIA from 40% to 49.38%. The shareholding was increased in kind. After the transaction, the 50.0% owner of Bišumuiža Nami SIA is SIA Linstow Baltic, owner of 49.38 % shares is Arco Investeeringute AS, and owner of 0.62% shares is SIA Mazais Baltezers. As a result of the transaction SIA Mazais Baltezers has a termless option to buy from Arco Investeeringute AS a 9.38% shareholding at nominal price.

On 21.07.2009, Arco Investeeringute AS, a subsidiary of Arco Vara AS increased its shareholding in the Latvian subsidiary Arco Development SIA from 80% to 99.99%. The shareholding was increased in kind.

On 18.08.2009 the division of Arco Vara Puukool OÜ, a 100% subsidiary of Arco Vara, by separation entered into force. This transaction separated the principal business of Arco Vara from its ancillary activities, i.e. property development from production of forestry plants. The newly separated entity, Arco Vara Ärikinnistute OÜ, being a 100% subsidiary of Arco Vara AS was filed with the commercial registry. Arco Vara Ärikinnistute OÜ owns in the city of Tartu one-half of the property situated in Tartu at Turu 34a.

On 18.09.2009, Arco Vara AS transferred its 100% holding in Arco Vara Puukool OÜ (a 100% Arco Vara AS subsidiary), with a holding of 0.04 million kroons (0.003 million euros), see also Note 11.

### Changes in the Group structure after the balance sheet date:

On 21.10.2009, Arco Vara transferred 100% of its holdings in Tallinna Olümpiapurjespordikeskuse AS and Arco Ärikeskuse OÜ, which made up 50% of the holding or share capital of both companies, and 75% of its holding in Floriston Grupp OÜ, which made up 37.5% of the holding of the company. Arco Vara will maintain a 12.5% holding in Floriston Grupp OÜ.

The holding was transferred to enterprises related to Marcel Vichmann and Olav Miil.

## KEY FINANCIALS OF THE 9 MONTHS

- Revenue and other income for the nine months totalled 385.0 million kroons (24.6 million euros), 28.7% down year-over-year.
- EBIT amounted to -228.2 million kroons (-14.6 million euros) without revaluation of investment property and inventory -21.8 million kroons (-1.4 million euros).
- Net loss amounted to -229.9 million kroons (-14.7 million euros) without revaluation of investment property and inventory and impairment losses on financial assets -51.1 million kroons (-3.3 million euros).
- Equity ratio was 28.7% (9 months 2008: 55.5%) of the balance sheet total. ROE was negative (9 months 2008: negative). ROIC was negative (9 months 2008: negative).
- In the construction division, new agreements in the amount of 136.8 million kroons (8.7 million euros) were concluded, 9 months 2008: 229.8 million kroons (14.7 million euros).
- At the end of the reporting period, the construction business order backlog was 105.8 million kroons (6.8 million euros), 9 months 2008: 233.4 million kroons (14.9 million euros)..
- Within 9 months, 41 apartments or plots were sold under Arco Vara projects (9 months 2008: 72).

	9 months 2009	EEK 9 months 2008	Q3 2009	Q3 2008	9 months 2009	EUR 9 months 2008	Q3 2009	Q3 2008
In millions								
<b>Revenue and other income</b>	385.0	540.0	108.0	195.2	24.6	34.5	6.9	12.5
<b>EBIT</b>	-228.2	-106.7	-177.1	-57.6	-14.6	-6.8	-11.3	-3.7
<i>incl. revaluation of investment property and inventory</i>	-206.4	-61.2	-171.9	-44.4	-13.2	-3.9	-11.0	-2.8
<b>Profit / loss before tax</b>	-228.7	-91.8	-202.5	-58.2	-14.6	-5.9	-12.9	-3.7
<i>incl. profit or loss from transfer of financial assets</i>	-4.8	-36.6	-4.8	-17.1	-0.3	-2.3	-0.3	-1.1
<b>Net profit / loss</b>	-229.9	-102.5	-202.9	-57.9	-14.7	-6.6	-13.0	-3.7
<b>EPS (in kroons and euros)</b>	-2.41	-1.15	-2.15	-0.6	-0.15	-0.07	-0.14	-0.04
<b>Total assets at period end</b>	1 675.7	3 192.0			107.1	204.0		
<b>Invested capital at period end</b>	1 459.5	2 945.5			93.3	188.3		
<b>Net loans at period end</b>	915.6	855.8			58.5	54.7		
<b>Equity at period end</b>	481.3	1 770.2			30.8	113.1		
<b>Average loan term (in years)</b>	1.7	2.2			1.7	2.2		
<b>Average interest rate of loans (per year)</b>	5.3%	7.2%			5.3%	7.2%		
<b>ROIC (rolling 4 quarters)</b>	neg	neg.			neg	neg.		
<b>ROE (rolling 4 quarters)</b>	neg	neg.			neg	neg.		
<b>Number of staff at period end</b>	260	546			260	546		

## **Comments by the CEO**

Within the first 9 months of 2009, 41 apartments or plots were sold. In the Boulevard Residence Madrid project in Sofia, a 30-year rental agreement was concluded with the Austrian supermarket chain Billa, by which the supermarket will rent approx. 900 m<sup>2</sup> of the ground floor sales space of the building. Furthermore, after the balance sheet date, a long-term rental agreement was concluded with a financial intermediary under the same project for a 4.700 m<sup>2</sup> office space. Within nine months, 24 apartments have been sold in the Kodukolde project in Tallinn and 10 apartments in the BM-1 project in Latvia, as well as 6 plots in the Merivälja project in Tallinn.

The strategy of Arco Vara development division is to finish the unfinished apartments in the Bišumuiža-1 project in Riga, the apartments and business areas in the Boulevard Residence Madrid and Manastirski projects in Sofia with more favourable construction prices. In autumn, the construction of the Kodukolde and Merivälja projects in Tallinn was completed. The finished residential areas help to release invested equity and reduce the liabilities of the Group. In order to maintain our competitiveness and speed up the sales, we have reduced the plot and apartment prices in all of our projects during the 9 months.

The restructuring of the service division has considerably reduced our administration costs, and the 9-month operating loss has decreased by more than 3 times, compared to 2008. Reduction of the number of employees has stopped and the staff makes up one fifth of the number of employees in the 9 months of the previous year. Within 9 months, the division has sold most of its real estate objects acquired for short-term investments, which have helped the division to manage by itself. The work organisation of some smaller offices outside the capital city was changed by giving up the classical office-based work organisation and applying the home office system by maintaining our full service selection at the same time. In other offices, more cost effective work organisation solutions are being implemented in cooperation with employees. The aim of the service division is to continue implementing the partially applied and in the current market situation justified work organisation also in foreign markets, which allows increasing service provision with limited means in these countries, with a future focus on Estonia, Latvia and Bulgaria.

In the construction division, new agreements in the amount of 137 million kroons (8.7 million euros) were concluded during the nine months, thereof 21 millions kroons (1.3 million euros) in the 3<sup>rd</sup> quarter.

In short, the overall result of 9 months was most influenced by fair value adjustments. Gross profit without revaluation of inventory amounted to 35.5 million kroons (2.3 million euros) and the net loss without property investment- and financial assets revaluation -51.1 million kroons (-3.3 million euros). As a result of refinancing, the extraordinary interest bearing liabilities had to pay back around 102 million kroons (6.5 million euros). Without extraordinary debt service, the cash flow of 9 months was -7.6 million kroons (0.5 million euros).

9 months cost level is approx. 132 million kroons (8.4 million euros) lower compared to last year. To improve the liquidity position the Group has sold smaller investment properties. After the balance sheet date holdings in three major joint ventures where the Group was not able fully to control working capital. By the holdings sales company improved its liquidity position by 55 million kroons (3.5 million euros). Due to reduced operating volumes and cost saving policy, the number of Members of the Board was reduced and two Members of the Board were recalled in the 3<sup>rd</sup> quarter. Lembit Tampere continues as a sole member of the management board of Arco Vara AS.



## REVENUE AND PROFIT

Due to low stock-in-trade an improvement in turnover can be expected in the 4<sup>th</sup> quarter this year or in the 1<sup>st</sup> quarter 2010. In autumn, the project Boulevard Residence Madrid will be completed in Sofia and a certificate of occupancy will be obtained in the 1st quarter of 2010. More than 60 apartments were added in the Kodukolle project, and in the Merivälja 2 project more than 50 plots with full infrastructure.

The overall result of 9 months was most influenced by fair value adjustments. In the 3rd quarter, the loss related to the transfer of holdings in three substantial joint ventures after the balance sheet date was reflected as fair value adjustment in the third quarter. This transaction alone accounted from all revaluations as investment property write-downs by 134.4 million kroons (8.6 million euros) and financial assets write-down by 4.5 million kroons (0.3 million euros). Revaluations in total were -206.4 million kroons (-13.2 million euros).

After the balance sheet date, it is evident that the turnover at the beginning of the 4th quarter is higher than the one in the 3rd quarter. The consolidated turnover of the Group in October made up 48% of the Group's total turnover in the 3rd quarter. In October and November the Group has already sold 9 apartments and 10 land plots. No considerable improvement in profitability in daily operations is forecasted for the 4<sup>th</sup> quarter. Main cost cuttings have been made and striving towards reduced costs has become a routine practice in all of our business units: we are aiming at saving fixed costs additionally by 15.0 million kroons (1.0 million euros) on an annual basis. The main focus is now set on increasing the turnover and improving the liquidity through the sales of projects and stock-in-trade.

In the 3<sup>rd</sup> quarter, the service and construction division produced a positive EBIT. Apart from revaluation of investment property and inventory, the 9 month operating loss of the Group was -21.8 million kroons (1.4 million euros).

As of end of nine months, the claim against AS Ühendatud Kapital with a book value of 64.1 million kroons (4.1 million euros) has not been additionally discounted. On 20.11.2009, the 1st session of the Tallinn Court of arbitration was held the decision of which is expected to be published to parties on 21.12.2009. After the decision, the management of the Group will weigh the likeliness of receiving the money once again. Already in the 2nd quarter, the write down of the claim related to the joint company Bisumuizas Nami SIA in 2008 in the amount of 34.1 million kroons (2.2 million euros) was cancelled, because the equity of Bisumuizas Nami SIA on 31.12.2008 was -16.2 million kroons (- 1.0 million euros) and on 30.09.2009 45.5 million kroons (2.9 million euros).

The biggest write-up was made in Latvia where the right of superficies under inventory was reclassified to investment property as in the near future, no development activities are planned and buyers for the development projects are searched for. It is a plot project with an area of 86 ha, located at the Mazais Baltezers lake near Riga. According to the detailed plan, a total of 189 plots for houses with a total gross enclosed area of 172 380 m<sup>2</sup> can be built.

	EEK				EUR			
	9 months 2009	9 months 2008	Q3 2009	Q3 2008	9 months 2009	9 months 2008	Q3 2009	Q3 2008
In millions								
<b>Revenue and other income</b>								
Services	28.7	90.5	8.5	25.1	45.0	117.2	-15.1	-2.8
Development	218.4	195.7	69.7	55.7	8.5	25.1	45.0	117.2
Construction	174.9	323.3	45.0	117.2	-15.1	-2.8	0.0	108.0
Eliminations	-37.1	-69.5	-15.1	-2.7	0.0	108.0	195.2	0.0
<b>Total revenue and other income</b>	<b>384.9</b>	<b>540.0</b>	<b>108.1</b>	<b>195.3</b>	<b>24.6</b>	<b>34.5</b>	<b>6.9</b>	<b>12.5</b>
<b>EBIT</b>								
Service <sup>1</sup>	-9.5	-30.7 <sup>1</sup>	1.3	-12.7	-0.6	-2.0	0.1	-0.8
Development	-172.8	-67.9	-135.9	-45.7	-11.0	-4.3	-8.7	-2.9
Construction	-2.9	7.7	1.8	3.7	-0.2	0.5	0.1	0.2
Eliminations	-26.3	-0.2	-26.8	1.7	-1.7	0.0	-1.7	0.1

Unallocated expenses	-16.7	-15.6	-17.5	-4.7	-1.1	-1.0	-1.1	-0.3
<b>Total EBIT</b>	<b>-228.2</b>	<b>-106.7</b>	<b>-177.1</b>	<b>-57.7</b>	<b>-14.6</b>	<b>-6.8</b>	<b>-11.3</b>	<b>-3.7</b>
Interest income and expense	-24.0	22.6	-10.6	6.6	-1.5	1.4	-0.7	0.4
Net other financial items	23.5	-7.6	-14.8	-7.2	1.5	-0.5	-0.9	-0.5
Income tax expense	-1.2	-10.8	-0.4	0.4	-0.1	-0.7	0.0	0.0
<b>Net profit / loss</b>	<b>-229.9</b>	<b>-102.5</b>	<b>-202.9</b>	<b>-57.9</b>	<b>-14.7</b>	<b>-6.6</b>	<b>-12.9</b>	<b>-3.8</b>

<sup>1</sup> Starting from 2008 Q2, the service division has been separated from the asset management and as the asset management of the company was sold in 2008, the asset management is reflected as a part of the service division in 2008.

## CASH FLOWS

	EEK				EUR			
	9 months 2009	9 months 2008	Q3 2009	Q3 2008	9 months 2009	9 months 2008	Q3 2009	Q3 2008
In millions								
Cash flows from operating activities	-49.8	-101.4	-41.6	5.6	-3.2	-6.5	-2.7	0.4
Cash flows from investing activities	45.5	-128.7	23.8	27.9	2.9	-8.2	1.5	1.8
Cash flows from financing activities	-105.4	-323.4	-37.2	-55.5	-6.7	-20.7	-2.4	-3.5
<b>Net cash flow</b>	<b>-109.7</b>	<b>-553.6</b>	<b>-55.0</b>	<b>-22.1</b>	<b>-7.0</b>	<b>-35.4</b>	<b>-3.5</b>	<b>-1.4</b>
Cash and cash equivalents at beginning of period	172.6	765.0	117.6	233.2	11.0	48.9	7.5	14.9
Effect of exchange rate fluctuations	-0.3	0.1	0.0	0.4	0.0	0.0	0.0	0.0
<b>Cash and cash equivalents at end of period</b>	<b>62.6</b>	<b>211.5</b>	<b>62.6</b>	<b>211.5</b>	<b>4.0</b>	<b>13.5</b>	<b>4.0</b>	<b>13.5</b>

In January 2009, 40 million kroons from the loan principals related to the Tivoli and Laeva projects were paid back on an extraordinary basis, by releasing the Group from the obligation to keep liquid assets in an amount of 150 million kroons (9.6 million euros) in the SEB bank. On an extraordinary basis, smaller loans and principal amounts have been paid back, too. Apart from extraordinary loan redemptions, the nine-month cash flows of the Group would have been negative by 7.6 million kroons (0.5 million euros). These refunding transactions have decreased the liquidity of the Group by 102 million kroons (6.5 million euros) and have forced the Group to sell its assets. After the balance sheet date, holdings on three joint ventures were sold, as a result of which the Group will earn 55 million kroons (3.5 million euros) by the end of the year.

We have extended and restructured a half of our commercial papers in the amount of 26 million kroons (1.6 million euros), whereof approx. 8 million kroons (0.5 million euros) have been paid after the balance sheet date as a result of the sales of underlying pledged assets.

Major short-term liabilities during the next 12 months:

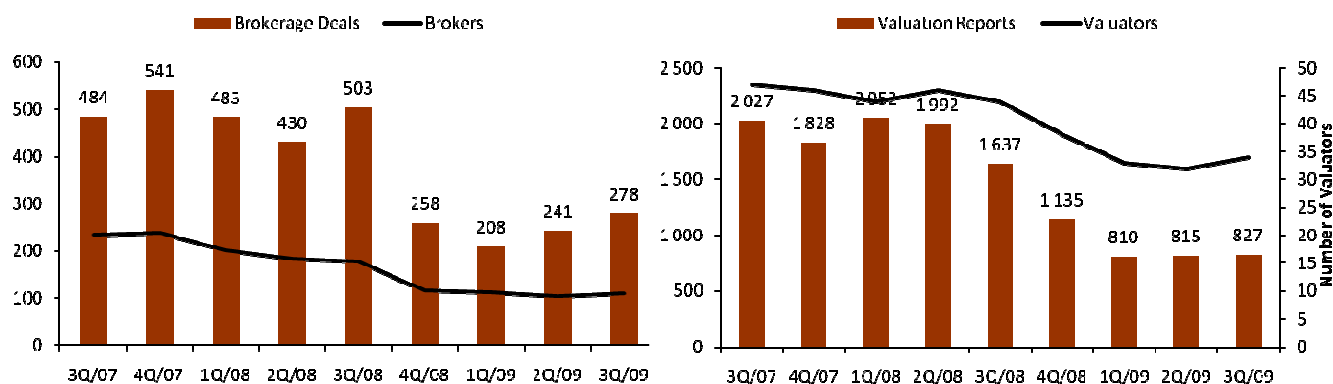
- the Ahtri project loan of 95.3 million kroons (6.1 million euros),
- „Tivoli” and „Laeva2” project loans in the total amount of 110.0 million kroons (7.0 million euros)
- „Kodukolde“ project loan in the amount of 65.3 million kroons (4.2 million euros).
- The loan for the Bišumuiža-1 (BM-1) development project in Riga in the amount of 49.8 million kroons (3.2 million euros),
- Calculated principal returns from the sales of booked spaces in the „Madrid“ project on Sofia as the house will be finished by the 1<sup>st</sup> quarter 2010 at the latest, in an amount of 38.2 million kroons (2.4 million euros),
- Commercial papers in the amount of 18 million kroons (1.2 million euros).

On a current basis, loans have been redeemed in the „Kodukolde” and Merivälja 2 projects in Tallinn and the „Bišumuiža-1” in Riga. In spring, the relevant loans have been refunded and the new loan service level will remain under sales prices by leaving the Group more disposable funds. Most of the liabilities of the Group are in euros.

## SERVICE DIVISION

Cost and business model optimisation started a year ago has had good results but is still not sufficient for earning net profit. By cash flow, the revenues and expenses of the division are in balance during the 9-month period and do not need any subsidy from parent company. Having the liquidity of the company as its priority, the division sold during the 9 months objects that were acquired earlier as short-term investments, due to the market situation, the prices have sometimes been under the cost price. The information after the balance sheet date is that in addition to July, Service Division in Estonia (operator of real estate agencies) made the second positive net profit this year in October, also the Latvian and the Bulgarian agencies made their first positive net profit in October.

The number of brokerage transactions of the Group in 12 months has decreased by 49%, but increased during the last two quarters. The number of valuation reports has decreased on year-over-year basis by 57%, but has demonstrated a slight increase during the last two quarters. As at the end of the 9-month period, the division employed 62 persons (9 months 2008: 305 persons).

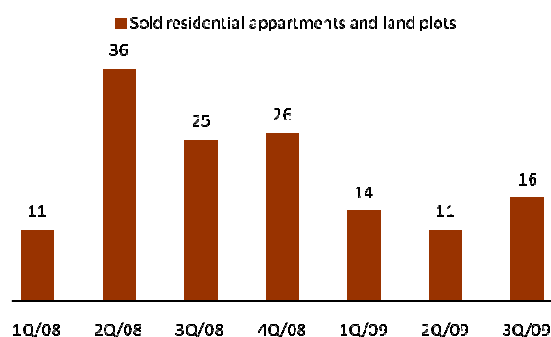


	9 months 2009	9 months 2008	change, %	Q3 2008	Q3 2008	change, %
Number of brokered objects	727	1 416	-49%	278	503	-45%
Projects being sold, pcs.	144	271	-47%	186	272	-32%
Number of valuation reports	2 452	5 681	-57%	827	1 637	-49%
Number of appraisers*	34	44	-23%			
Number of real estate brokers*	109	177	-38%			
Average number of staff	62	305	-80%			

\* Includes authorisation agreements

## DEVELOPMENT DIVISION

Within 9 months, 41 apartments or plots were sold under Arco Vara projects. After the balance sheet date already 19 units of residential properties are sold. Under the Boulevard Residence Madrid project in Sofia, a long-term rental agreement with the Austrian supermarket chain Billa was concluded for approx. 900 m<sup>2</sup>. Furthermore, after the



balance sheet date, a long-term rental agreement was concluded with a financial intermediary under the same project for a 4.700 m<sup>2</sup> office space. After the balance sheet date, the trial on the establishment of the detailed plan of the Tivoli project was disposed and the Tallinn Administrative Court decision annulled. Based on the decision, the original detailed plan will remain into force without changes.

The main risk factor for the development division is and will be for the whole year the refinancing of loans of empty plots in Estonia. Although the cash flow of the Group is tense, we consider potential finishing of the unfinished projects with more favourable construction prices in order to satisfy the demand with ready to be sold stock as well as improve the security assets of loans. On a current basis, preparations are made in the Kodukolde next phase and Tivoli projects in Tallinn, and negotiations held with banks on financing the construction.

In order to manage the liquidity risk, the prices have been decreased in the ongoing projects in the Baltics and Sofia in order to improve sales, and after the balance sheet date, holdings in three substantial joint ventures sold. For some employees, salaries and working times have been reduced. As at the end of the 9-month period, the division employed 38 persons (9 months 2008: 48 persons).

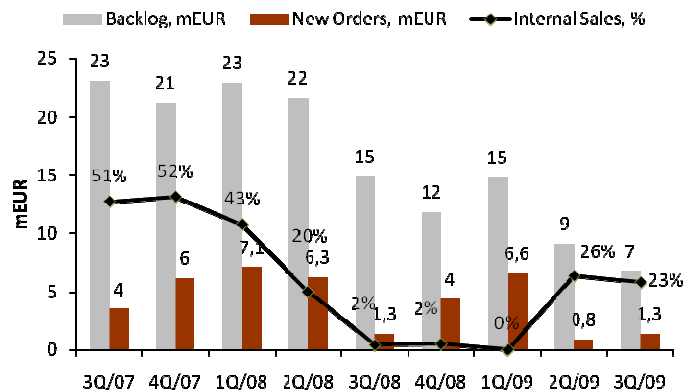
Further information on the projects: [www.arcorealestate.com/development](http://www.arcorealestate.com/development)

## CONSTRUCTION DIVISION

The construction division has won tenders of environmental and infrastructure engineering. The average volume of the tenders has decreased and the contractor is the state or local governments.

During nine months, the major new construction agreements were the Emajõe-Võhandu drinking water project and the Kohtla-Järve-Kiviõli sewerage project.

Within nine months, new agreements in the amount of 137 million kroons (8.8 million euros) were concluded, thereof 21 millions kroons (1.3 million euros) in the 3<sup>rd</sup> quarter. The residual cost of building contracts as of end of nine months is 9 million kroons (6.8 million euros). As at the end of the 9-month period, the division employed 145 persons (9 months 2008: 171 persons).



## SUMMARY TABLE OF MAJOR PROJECTS

Project type	Name	Location	Holding	Building rights according to business plan	Current state	Classification in the balance sheet
Commercial	Ahtri 3	Estonia, Tallinn	50%	approx. 44,500m <sup>2</sup>	The old plan and building permit are in effect. Detailed plan to extend building rights has been approved and will be displayed to public. In the new plan, above-ground building rights are 51 100 m <sup>2</sup>	Investment property
Commercial	Ilmarine <sup>1</sup>	Estonia, Tallinn	50%	approx. 80,000 m <sup>2</sup>	The thematic plan "Location of high rise buildings in Tallinn" has been adopted. Detailed plan under preparation.	Investment property
Commercial	Laeva 2	Estonia, Tallinn	100%	7,776 m <sup>2</sup>	Detailed plan approved. Building permit for the building part acquired. Negotiations with potential tenants.	Investment property
Commercial	Paldiski mnt 80	Estonia, Tallinn	100%	24,000 m <sup>2</sup>	Detailed plan for establishing building rights in the end phase.	Investment property
Project type	Name	Location	Holding	Rented area	Current state	Classification in the balance sheet
Cash flow	Enerpoint	Estonia, Kuressaare	100%	3,326 m <sup>2</sup>	Building right acquired, producing cash flow.	Investment property
Cash flow	Kaarli 2	Estonia, Tallinn	33%	Plot 4.791 m <sup>2</sup>	Café with a total area of 242 m <sup>2</sup> and the parking area are producing cash flow.	Investment property
Cash flow	Kerberon	Estonia, Tallinn	100%	15,750 m <sup>2</sup>	Building right acquired, right of superficies, producing cash flow.	Investment property
Cash flow	Melon <sup>1</sup>	Estonia, Tallinn	50%	5,728 m <sup>2</sup>	Building right acquired, producing cash flow. We are applying for additional building right for approx. 11,000 m <sup>2</sup> . Endorsement of the draft detailed plan ongoing	Investment property
Cash flow	Pärnu market	Estonia, Pärnu	100%	2,529 m <sup>2</sup>	Building right acquired, producing cash flow.	Investment property
Cash flow	Raekoja 10	Investment property	50%	1,493 m <sup>2</sup>	Producing cash flow.	Investment property
Cash flow	Rüütli Str. 16 / 18	Estonia, Tallinn	50%	980 m <sup>2</sup>	Building right acquired, producing cash flow.	Investment property
Cash flow	TOP Commercial spaces <sup>1</sup>	Estonia, Tallinn	50%	17,981 m <sup>2</sup>	Building rights at the moment according to existing superficies, produces cash flow. New detailed plan in the process of approval, total volume at least 74,675 m <sup>2</sup> .	Investment property
Project type	Name	Location	Holding	Building rights according to business plan	Current state	Classification in the balance sheet
Apartments	Bišumuiža 1	Latvia, Riga	100%	Unsold/unreserved building rights 17,875 m <sup>2</sup>	Building rights established, apartments are on sale.	Inventories
Apartments	Bišumuiža 2	Latvia, Riga	49,4%	87,770 m <sup>2</sup>	Designing.	Inventories
Apartments	Hills	Lithuania, Vilnius	100%	6,500 m <sup>2</sup>	Building rights acquired. Project is on sale.	Inventories
Apartments	Kolde	Estonia, Tallinn	100%	Unsold building rights 14,228 m <sup>2</sup> .	Right of superficies, building rights acquired. Apartments are on sale.	Inventories
Apartments	Madrid	Bulgaria, Sofia	100%	Unsold/unreserved building rights 12,499 m <sup>2</sup>	Building rights acquired, construction and sales ongoing.	Inventories
Apartments	Manastirski	Bulgaria, Sofia	100%	Unsold/unreserved building rights 23,778 m <sup>2</sup>	Building rights acquired, construction and sales ongoing.	Inventories
Apartments	Tivoli	Estonia, Tallinn	100%	58,470 m <sup>2</sup>	No building rights, detailed plan in the final phase	Inventories
Apartments	TOP Residential <sup>1</sup>	Estonia, Tallinn	50%	33,770 m <sup>2</sup>	No building rights, planning in the start phase	Investment property
Plots	Baltezers-2	Latvia, Riga	100%	Unsold 9,700 m <sup>2</sup> , 7 plots	Ongoing sales of plots.	Investment property
Plots	Baltezers-3	Latvia, Riga	100%	172.380 m <sup>2</sup> , total land 861.900 m <sup>2</sup>	Rights of superficies. 189 plots. 1 <sup>st</sup> stage of infrastructure in preparation (1st stage includes 3 plots).	Investment property
Plots	Baltezers-5	Latvia, Riga	100%	46 plots unsold	Building rights acquired. Construction finished, sales ongoing.	Inventories
Plots	Merivälja 2	Estonia, Merivälja	100%	Unsold 57,382 m <sup>2</sup> , 46 plots	Construction of roads and utility lines finished, sales of plots ongoing.	Inventories
Plots	Pärtli	Estonia, Saue	50%	84 plots, average plot 1.500 m <sup>2</sup>	No building rights, detailed planning under development, suspended until improvement of market situation	Investment property
Plots	Tooma	Estonia, Saue	50%	107 plots, average plot 1.802 m <sup>2</sup>	No building rights, detailed planning under development, suspended until improvement of market situation	Inventories
Plots	Vahi	Estonia, Vääna	100%	21 plots, average plot 3.363 m <sup>2</sup>	Building rights and design present, suspended until improvement of market situation.	Inventories

Note: The development and success of the Group's development projects depend largely on external factors. Their success is the adoption of plans and the issuance of building permits by the local government and the planning authorities. The information presented in the tables, such as building rights according to business plan, current state, project type and classification of the project in the balance sheet, has been recorded based on management's intentions and best judgment and may change in line with changes in the planning process. Expectations of the projects' realisation may also change over time according to changes in the market and in

competition. Management estimates the value of the project portfolio on an ongoing basis and is prepared to sell any project or part of a project at any time, depending on the results of the cost-benefit analysis.

<sup>1</sup> After the balance sheet date Arco Vara sold its holdings in Tallinna Olümpiapurjespordikeskuse AS and Arco Ärikeskuse OÜ, and a holding in Floriston Grupp OÜ, which made up 37.5% of Floriston Group OÜ equity. Arco Vara will maintain a 12.5% holding in Floriston Grupp OÜ.

### The projects presented in the summary table account for the following portions of the Group's assets:

Balance Sheet Item	EEK		EUR	
	Balance sheet item at 30.09.2009	Book values of projects presented in the summary table at 30.09.2009.	Balance sheet item at 30.09.2009	Book values of projects presented in the summary table at 30.09.2009.
In millions				
Total assets	1 678.2	1 237.7	107.3	79.1
Inventories	787.2	731.4	50.3	46.7
Investment property	532.9	506.3	34.1	32.4
Property, plant and equipment	23.3		1.5	0.0

### SIGNIFICANT CHANGES IN DETAILED PLANS IN 9 MONTHS OF 2009:

**Tivoli:** A detailed plan was established by the Tallinn City Council on 17 April 2008. The building rights set out by the detailed plan were as follows: the gross enclosed area of up to five-storey apartment houses is 51,400 m<sup>2</sup>, the area of business areas 7,000 m<sup>2</sup>, additionally, the detailed plan provides for up to 780 (21,150 m<sup>2</sup>) underground parking places.

An apartment owner of the neighbouring residential district has contested the detailed plan in court and the court of first instance has annulled the decision of establishing the detailed plan. The City of Tallinn and Arco Investeeringute AS as interested party have appealed the decision. The session of the court of second instance was held at the end of October 2009 and resulted in disposal of the trial and annulment of the Tallinn Administrative Court decision. Based on the decision, the original detailed plan will remain into force without changes.

**Ahtri:** The property has a valid detailed plan and building rights. Due to a new architectural solution and a change in the intended purpose, an application was submitted on 21 August 2008 to the Tallinn City Planning Department for initiating drafting of a new detailed plan. A new detailed plan was initiated on 7 May 2008 and it provides for ground based building rights 51,110 m<sup>2</sup> gross enclosed area. The detailed plan was adopted on 16 September 2009. The detailed plan will be displayed to public and will be then established.

As long as there is no new detailed plan, the building rights of the previous plan are in force.

**PM80:** The detailed plan was adopted at a session of Tallinn City Administration on 13 May 2009. After the adoption, the detailed plan was displayed to public from 2 June to 16 June, during which no objections or suggestions were received. The detailed plan was approved by the Harju County Governor and its establishment is in the final phase. The detailed plan changes the effective Tallinn comprehensive plan with regard to storeys.

### STAFF

The average number of Group employees was 260 persons in the 3<sup>rd</sup> quarter 2009 (2008 Q3: 546 persons). Payroll including associated taxes totalled 58.1 million kroons (3.7 million euros) against 116.9 million kroons (7.5 million euros) in 2008. Payroll, including taxes has decreased 50.3 % on annual basis.

The remuneration of the Group’s management board for the 9 month of 2009, including associated taxes, totalled 4.9 million kroons (0.3 million euros). In 2008, the same indicator amounted to 7.9 million kroons (0.5 million euros).

Starting from 5 September 2009, the Management Board has only one member. As Member of the Board of Arco Vara, Lembit Tampere continues his work.

**SHARE AND SHAREHOLDERS**

The total number of outstanding shares of the company is 95 284 150. As of end of 9 months, the company has 2,368 shareholders and the share price was closed at 5.32 kroon (0.34 euros) level, by increasing 88.6% within 9 months. The company holds 450,000 of its own shares with the average acquisition value of 8.87 kroons (0.57 euros).

Diagrams of share price changes of the shares of Arco Vara AS, and changes of transaction volumes during 9 months of 2009:

In Estonian kroons (EEK)



In euros (EUR)



Change in share price compared to the reference index OMX Tallinn within 9 months:



Index/share	01.01.2009	30.09.2009	+/-%
OMX Tallinn	274,83	445,55	62,12
ARC1T	0.17 EUR	0.34 EUR	100,00

Bigger shareholders on 30.09.2009	Number of shares	Shareholding %
FREIER PROJEKT OÜ	22 358 584	23,5%
OÜ TOLETUM	20 757 258	21,8%
HM INVESTEERINGUD OÜ	20 722 383	21,7%
SEB Ab Clients	6 687 955	7,0%
GAMMA HOLDING OÜ	4 774 200	5,0%
Central Securities Depository of Lithuania	2 187 253	2,3%
SEB PANK AS KAUPLEMINE	824 000	0,9%
RIMONNE BALTIC OÜ	702 000	0,7%
SEB KASVUFOND	610 725	0,6%
INTER BALTIC INVEST OÜ	580 200	0,6%
Other	15 079 592	15,8%
TOTAL	95 284 150	100,0%

### Share positions of the members of the management board and the supervisory board

Share positions of the members of the	Position	Number of	Shareholding %
Lembit Tampere	CEO	0	0.00%
Richard Tomingas (Toletum OÜ)	Chair of the supervisory board	20 757 258	21.8%
Hillar-Peeter Luutsalu (HM Investeeringud OÜ, connected)	Member of the supervisory	20 790 953	21.8%
Aare Tark	Member of the supervisory	0	0.00%
Kalev Tanner	Member of the supervisory	0	0.00%
Ragnar Meitern	Member of the supervisory	0	0.00%
Total		41 548 211	43.60%



## DESCRIPTION OF MAIN RISKS

### Credit risks

Credit risk is most apparent in the construction division of the Group. We are continuously monitoring the payment behaviour of our contract partners. Within 9 months, we have noticed some worsening in payment behaviour, but until now, we have not born substantial credit losses.

### Liquidity risks

Balance on hand is kept in biggest Estonian banks as overnight deposits or fixed rate short-term time deposits. The lengths of time deposits are usually one week. Management of cash flows is tense due to the high refunding risk. The cash and cash equivalents balance of the Group is permanently lower than the loan balances needing refunding within the next 12 months. The weighted average length of interest bearing liabilities is as of 30.09.2009 1.7 years, which means that more than a half of the total loan balance needs refunding each year. Although the consolidated cash and cash equivalents balance of the Group at the end of 9-month period is 62.6 million kroons (4.0 million euros), 8.5 million kroons (0.5 million euros) of it are under the direct control of the company, while the rest is on the accounts of joint companies or project companies where payments to other group companies or parent company require an approval by the partner or the bank. These resources can be used by relevant companies for their daily operations and investments. The liquidity risk will certainly be the most serious risk for the next six months. In order to improve the liquidity position, the group has sold holdings in three group joint companies after the balance sheet date. The transaction will improve the group liquidity by approx. 55 million kroons (3.5 million euros) by the end of the year and will reduce the obligations by 117 million (7.5 million euros).

### Interest risks

Most of the Group loan agreements have been concluded in euros and the base interest is the 3-month and 6-month EURIBOR. Thus, the Group is open to what is happening on international capital markets. At present, the long-term interest risk is not covered by derivatives. The interest bearing liabilities of the Group have decreased within nine months by 9 million kroons (4.9 million euros). As of 30.09.2009, the interest bearing liabilities of the Group amount to 978.1 million kroons (62.5 million euros). Actually paid interest expenses within nine months of 2009 was 37.1 million kroons (2.4 million euros). Compared to 9 months 2008, the weighted average interest expenses have decreased from 7.2% to 5.3%.

### Currency risks

Sales agreements are usually concluded in local currencies: Estonian kroons (EEK), Latvian lats (LVL) and Bulgarian levis (LEV). A claim with a book value of 64.1 million kroons (4.1 million euros) has been concluded in US dollars. The currency risk of this claim has not been managed. The Group is not protected against devaluation of currencies. Most of the liquid resources are kept in short-term deposits in Estonian kroons.

**Ratio Formulae**

**Invested capital** = current interest-bearing liabilities plus long-term liabilities plus equity

**Net loans** = current interest-bearing liabilities at the end of period plus long-term liabilities at the end of period less cash and cash equivalents at the end of period less short-term investments in securities

**Equity to assets ratio** = equity at the end of period / total assets at the end of period

**Average equity** = the past 4 quarters' closing equity / 4

**ROE** = net profit for the period/ the period's average equity

**Average invested capital** = the sum of current interest-bearing liabilities, long-term liabilities and equity for the last four quarters / 4

**ROIC** = the sum of pre-tax profit and interest expenses for the last 4 quarters / average invested capital

**EPS** = net profit attributable to equity holders of the parent / (weighted average number of ordinary outstanding shares of the period – own shares)

**Current Ratio (current ratio of current liabilities)** = at the end of current assets period / current liabilities at the end of period

The management board warrants that the management report provides a true and fair overview of the development and results of the company and Group, their financial standing and contains the description of the main risks and uncertainties.

Lembit Tampere

Member of the management board

27.11.2009

## Condensed consolidated interim financial statements

### Condensed consolidated income statement

Note	9 months 2009	9 months 2008	Q3 2009	Q3 2008
in EEK, thousands				
Rendering of services	224 812	368 828	73 056	145 938
Sale of goods	51 366	138 819	18 332	48 230
<b>Total revenue</b>	<b>276 178</b>	<b>507 647</b>	<b>91 388</b>	<b>194 168</b>
Cost of sales	-375 799	-430 713	-100 934	-167 980
<b>Gross profit</b>	<b>-99 621</b>	<b>76 934</b>	<b>-9 546</b>	<b>26 188</b>
Other operating income	108 778	32 364	16 613	1 022
Selling and distribution costs	-3 320	-11 776	-1 321	-2 538
Administrative expenses	-57 391	-109 945	-19 412	-37 032
Other operating expenses	-176 621	-94 310	-163 450	-45 205
<b>EBIT</b>	<b>-228 175</b>	<b>-106 733</b>	<b>-177 116</b>	<b>-57 565</b>
Finance income	15 561	56 141	420	24 572
Finance expenses	-16 098	-41 168	-25 790	-25 239
<b>Profit / loss before tax</b>	<b>-228 712</b>	<b>-91 760</b>	<b>-202 486</b>	<b>-58 232</b>
Income tax expense	-1 235	-10 787	-426	368
<b>Profit / loss for the period</b>	<b>-229 947</b>	<b>-102 547</b>	<b>-202 912</b>	<b>-57 864</b>
<b>Profit distribution for the period:</b>	<b>8</b>			
Parent company's participation in loss	-228 602	-109 743	-203 453	-57 814
Minority interest in loss	-110	7 196	541	-50
<b>Other aggregated loss</b>				
Exchange rate differences in converting foreign company	617	-628	39	-624
<b>Aggregate profit / loss for the period</b>	<b>-229 330</b>	<b>-103 175</b>	<b>-202 873</b>	<b>-58 488</b>
Parent company participation in aggregate loss	-229 186	-110 371	-203 380	-58 438
Minority interest in aggregate loss	-144	7 196	507	-50
<b>Earning per share</b>	<b>8</b>			
- basic	-2.41	-1.15	-2.15	-0.61
- diluted	-2.41	-1.15	-2.15	-0.61

Note	9 months 2009	9 months 2008	Q3 2009	Q3 2008
in EUR, thousands				
Rendering of services	14 368	23 572	4 669	9 327
Sale of goods	3 283	8 872	1 172	3 082
<b>Total revenue</b>	<b>17 651</b>	<b>32 444</b>	<b>5 841</b>	<b>12 409</b>
Cost of sales	-24 018	-27 528	-6 451	-10 736
<b>Gross profit</b>	<b>-6 367</b>	<b>4 916</b>	<b>-610</b>	<b>1 673</b>

Other operating income	4	6 952	2 068	1 062	65
Selling and distribution costs	5	-212	-753	-84	-162
Administrative expenses	6	-3 668	-7 027	-1 241	-2 367
Other operating expenses	4	-11 288	-6 028	-10 446	-2 889
<b>EBIT</b>		<b>-14 583</b>	<b>-6 824</b>	<b>-11 319</b>	<b>-3 680</b>
Finance income	7	995	3 588	27	1 570
Finance expenses	7	-1 029	-2 631	-1 648	-1 613
<b>Profit / loss before tax</b>		<b>-14 617</b>	<b>-5 867</b>	<b>-12 940</b>	<b>-3 723</b>
Income tax expense		-79	-689	-27	24
<b>Profit / loss for the period</b>	<b>8</b>	<b>-14 696</b>	<b>-6 556</b>	<b>-12 967</b>	<b>-3 699</b>
<b>Profit distribution for the period:</b>					
<i>Parent company's participation in loss</i>		-14 689	-7 014	-13 003	-3 695
<i>Minority interest in loss</i>		-7	460	35	-3
<b>Other aggregated loss</b>					
Exchange rate differences in converting foreign company		39	-40	2	-40
<b>Aggregate profit / loss for the period</b>		<b>-14 657</b>	<b>-6 596</b>	<b>-12 965</b>	<b>-3 739</b>
<i>Parent company participation in aggregate loss</i>		-14 648	-7 054	-12 998	-3 735
<i>Minority interest in aggregate loss</i>		-9	460	32	-3
Earning per share	8				
- basic		<b>-0.15</b>	-0.07	<b>-0.14</b>	-0.04
- diluted		<b>-0.15</b>	-0.07	<b>-0.14</b>	-0.04

## Statement of financial position

	Note	EEK		EUR	
		30.09.2009	31.12.2008	30.09.2009	31.12.2008
in thousands					
Cash and cash equivalents		62 577	172 574	3 999	11 029
Financial assets		0	40 416	0	2 583
Receivables	9	247 596	294 352	15 824	18 813
Prepayments		6 094	6 165	389	394
Inventories	10	787 226	849 440	50 313	54 289
Biological assets		0	3 679	0	235
<b>Total current assets</b>		<b>1 103 493</b>	<b>1 366 626</b>	<b>70 525</b>	<b>87 343</b>
Financial assets		255	255	16	16
Receivables	9	7 402	6 671	473	427
Investment property	12	532 930	542 753	34 060	34 688
Property, plant and equipment	13	23 269	41 812	1 487	2 672
Intangible assets	14	8 382	12 475	536	797
<b>Total non-current assets</b>		<b>572 238</b>	<b>603 966</b>	<b>36 572</b>	<b>38 600</b>
<b>TOTAL ASSETS</b>		<b>1 675 731</b>	<b>1 970 592</b>	<b>107 097</b>	<b>125 943</b>
Loans and borrowings	15	461 862	353 417	29 518	22 587
Liabilities	16	118 185	132 677	7 553	8 480
Deferred income		86 745	65 174	5 544	4 165
Provisions		11 318	5 917	723	378
<b>Total current liabilities</b>		<b>678 110</b>	<b>557 185</b>	<b>43 338</b>	<b>35 610</b>
Loans and borrowings	15	509 799	692 919	32 582	44 286
Liabilities	16	5 384	4 404	344	281
Deferred income tax liability		20	20	1	1
Provisions		1 100	4 291	69	274
<b>Total non-current liabilities</b>		<b>516 303</b>	<b>701 634</b>	<b>32 996</b>	<b>44 842</b>
<b>TOTAL LIABILITIES</b>		<b>1 194 413</b>	<b>1 258 819</b>	<b>76 334</b>	<b>80 452</b>
Share capital		952 842	952 842	60 898	60 898
Share premium		0	712 514	0	45 538
Statutory capital reserve		31 463	31 463	2 011	2 011
Retained earnings		-501 340	-984 668	-32 041	-62 932
Own shares		-3 992	-3 992	-255	-255
<b>Total equity attributable to equity holders of the parent</b>		<b>478 973</b>	<b>708 159</b>	<b>30 613</b>	<b>45 260</b>
Minority interests		2 345	3 614	150	231
<b>Total equity</b>		<b>481 318</b>	<b>711 773</b>	<b>30 763</b>	<b>45 491</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1 675 731</b>	<b>1 970 592</b>	<b>107 097</b>	<b>125 943</b>

## Condensed consolidated interim cash flow statement

	Note	EEK		EUR	
		9 months 2009	9 months 2008	9 months 2009	9 months 2008
in thousands					
Net profit / loss		-229 947	-102 547	-14 696	-6 556
Interest income and expense	7	24 032	-22 592	1 536	-1 444
Gains and losses on disposal of subsidiaries and interests in jointly controlled entities		4 771	36 643	305	2 342
Gains and losses on other financial assets	7	-3 136	1 477	-200	94
Impairment losses on financial assets	7	-27 556	-25 258	-1 761	-1 614
Depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets	3,4,6	3 406	5 352	218	341
Goodwill adjustments and recognition of negative goodwill as revenues		0	5 171		329
Gain / loss on the sale of property, plant and equipment and intangible assets	3,4,6	1 055	38	66	3
Gain / loss on the sale of investment property	4	-1 001	-617	-63	-39
Change in the fair value of investment property and biological assets	4	71 321	61 223	4 558	3 913
Profit/loss from property and inventory revaluation	3	135 067	0	8 632	0
Exchange gains and losses	7	2 426	-5 243	155	-335
Corporate income tax expense		0	10 787	0	689
<b>Operating cash flow before working capital changes</b>		<b>-19 562</b>	<b>-35 566</b>	<b>-1 250</b>	<b>-2 277</b>
Change in receivables and prepayments		-42 901	-3 052	-2 742	-194
Change in inventories		-15 074	-83 918	-963	-5 363
Change in biological assets		2 190	0	140	0
Change in payables and deferred income		25 585	21 120	1 635	1 350
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		<b>-49 762</b>	<b>-101 416</b>	<b>-3 180</b>	<b>-6 484</b>
Acquisition of property, plant and equipment and intangible assets		-1 638	-21 775	-105	-1 392
Proceeds from sale of property, plant and equipment and intangible assets		2 010	443	128	28
Acquisition of investment property		-5 898	-1 173	-377	-75
Proceeds from sale of investment property		4 984	29 000	319	1 853
Acquisition of subsidiaries and interests in jointly controlled entities		-502	-126 312	-32	-8 073
Proceeds from disposal of subsidiaries and interests in jointly controlled entities		600	1 002	38	64
Acquisition of other financial assets		0	-202 665	0	-12 953
Proceeds from sale of other financial assets		40 416	214 161	2 583	13 687
Loans granted		-696	-50 546	-44	-3 230
Repayment of loans granted		4 218	3 784	270	242
Interest received		1 993	25 339	127	1 619
<b>NET CASH USED IN / FROM INVESTING ACTIVITIES</b>		<b>45 487</b>	<b>-128 742</b>	<b>2 907</b>	<b>-8 230</b>
Proceeds from loans received		107 095	235 961	6 845	15 081
Repayment of loans and payment of finance lease liabilities		-175 432	-435 147	-11 212	-27 811
Change in overdraft		0	-14	0	-1
Repurchase of own shares		0	-3 992	0	-255
Interest paid		-37 052	-62 525	-2 368	-3 996
Dividends paid		0	-42 274	0	-2 702
Income tax paid on dividends		0	-15 444	0	-987
<b>NET CASH USED IN / FROM FINANCING ACTIVITIES</b>		<b>-105 389</b>	<b>-323 435</b>	<b>-6 735</b>	<b>-20 671</b>
<b>NET CASH FLOW</b>		<b>-109 664</b>	<b>-553 593</b>	<b>-7 008</b>	<b>-35 385</b>
Cash and cash equivalents at beginning of period		172 574	765 008	11 029	48 893
Decrease / increase in cash and cash equivalents		-109 664	-553 593	-7 009	-35 385
Effect of exchange rate fluctuations		-333	52	-22	3
<b>Cash and cash equivalents at end of period</b>		<b>62 577</b>	<b>211 467</b>	<b>3 999</b>	<b>13 510</b>

## Condensed consolidated interim statement of change in equity

	Equity attributable to equity holders of the parent						Minority interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Own shares (minus)	Retained earnings	Total		
in EEK, thousands								
<b>At 31.12.2007</b>	<b>952 842</b>	<b>712 514</b>	<b>20 084</b>	<b>0</b>	<b>218 867</b>	<b>1 904 307</b>	<b>25 265</b>	<b>1 929 572</b>
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	-13 828	-13 828
Dividends declared	0	0	0	0	-37 160	-37 160	-1 252	-38 412
Transfer to capital reserve	0	0	11 379	0	-11 379	0	0	0
Purchase of own shares	0	0	0	-3 992	0	-3 992	0	-3 992
Aggregate profit / loss for the period	0	0	0	0	-110 371	-110 371	7 196	-103 175
<b>At 30.09.2008</b>	<b>952 842</b>	<b>712 514</b>	<b>31 463</b>	<b>0</b>	<b>59 957</b>	<b>1 752 784</b>	<b>17 381</b>	<b>1 770 165</b>
<b>At 31.12.08</b>	<b>952 842</b>	<b>712 514</b>	<b>31 463</b>	<b>-3 992</b>	<b>-984 668</b>	<b>708 159</b>	<b>3 614</b>	<b>711 773</b>
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	-1 125	-1 125
Retained earnings from previous periods	0	-712 514	0	0	712 514	0	0	0
Aggregate profit / loss for the period	0	0	0	0	-229 186	-229 186	-144	-229 330
<b>At 30.09.2009</b>	<b>952 842</b>	<b>0</b>	<b>31 463</b>	<b>-3 992</b>	<b>-501 340</b>	<b>478 973</b>	<b>2 345</b>	<b>481 318</b>

	Equity attributable to equity holders of the parent						Minority interests	Total equity
	Share capital	Share premium	Statutory capital reserve	Own shares (minus)	Retained earnings	Total		
in EUR, thousands								
<b>At 31.12.2007</b>	<b>60 898</b>	<b>45 538</b>	<b>1 284</b>	<b>0</b>	<b>13 988</b>	<b>121 708</b>	<b>1 615</b>	<b>123 323</b>
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	-884	-884
Dividends declared	0	0	0	0	-2 375	-2 375	-80	-2 455
Transfer to capital reserve	0	0	727	0	-727	0	0	0
Purchase of own shares	0	0	0	-255	0	-255	0	-255
Aggregate profit / loss for the period	0	0	0	0	-7 054	-7 054	460	-6 594
<b>At 30.09.2008</b>	<b>60 898</b>	<b>45 538</b>	<b>2 011</b>	<b>-255</b>	<b>3 832</b>	<b>112 024</b>	<b>1 111</b>	<b>113 135</b>
<b>At 31.12.08</b>	<b>60 898</b>	<b>45 538</b>	<b>2 011</b>	<b>-255</b>	<b>-62 932</b>	<b>45 260</b>	<b>231</b>	<b>45 491</b>
Change in minority interests (from change in the Group's interests in subsidiaries)	0	0	0	0	0	0	-72	-72
Retained earnings from previous periods	0	-45 538	0	0	45 538	0	0	0
Aggregate profit / loss for the period	0	0	0	0	-14 648	-14 648	-9	-14 657
<b>At 30.09.2009</b>	<b>60 898</b>	<b>0</b>	<b>2 011</b>	<b>-255</b>	<b>-32 042</b>	<b>30 612</b>	<b>150</b>	<b>30 762</b>



## Notes to the condensed consolidated interim financial statements

### 1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the third quarter and nine months of 2009 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting, using the same accounting policies and measurement bases which were applied in preparing the consolidated financial statements for 2008.

The financial statements have been prepared in thousands Estonian kroons (EEK). Based on NASDAQ OMX requirements, the main statements and notes have also prepared in thousands euros, unless another currency is referenced to. As the Estonian kroon is bound to the euro at a rate of 1 euro = 15.6466 Estonian kroons, no currency exchange differences are created, however, arithmetical inaccuracies up to 1 euro may occur due to approximation.

In May 2008, IASB issued its first collection of changes in standards which was aimed at eliminating contradictions and making the wording more accurate. The collection contains separate transfer provisions for every standard and most of the changes will be applied to financial periods starting from July 2009 or later. According to the Group, these changes do not affect the financial statements to a considerable extent.

Change in IAS 40 "Investment Property" is important for the Group. According to the change, the investment property reflected under Property, Plant and Equipment and Assets under Construction have to be classified as property investment immediately after the commencement of construction works. If the fair value of such a project cannot be assessed on a reliable basis, such investment can be reflected in acquisition cost until completing the construction or until the fair value can be assessed on a reliable basis. These changes have no influence to the Group as at the moment of preparing the report, the Group has no substantial property investments under the item "Under construction".

#### Information on changes in presentation in 2009

Due to changes in the IAS1 standard „Presentation of Financial Statements“ effective since 1 January 2009, the condensed consolidated interim income statement has been replaced with the condensed consolidated income statement starting from the Q1 interim statement. Due to preparing a condensed consolidated income statement, the presentation of statement of change in equity was changed. According to IAS1, the earlier term „balance sheet“ has been replaced with „statement of financial position“. The presentation of basic statements and the new terms do not affect the presentation of transactions and balances or the accounting policies.

## 2. Segment reporting by business segments

Segment	Development		Services		Construction		Eliminations		Consolidated	
	9 months 2009	9 months 2008	9 months 2009	9 months 2008	9 months 2009	9 months 2008	9 months 2009	9 months 2008	9 months 2009	9 months 2008
in EEK, thousands										
Sales revenue outside the Group	87 435	164 194	24 009	82 996	141 762	260 457	0	0	253 206	507 647
<i>Change</i>	-47%	-58%	-71%	-33%	-46%	118%			-50%	-15%
Other business revenue outside the Group	130 908	31 094	218	1 177	624	93	0	0	131 750	32 364
Revenue and other income from other segments	56	406	4 440	6 333	32 559	62 747	-37 055	-69 486	0	0
<b>Total revenue and other income</b>	<b>218 399</b>	<b>195 694</b>	<b>28 667</b>	<b>90 506</b>	<b>174 945</b>	<b>323 297</b>	<b>-37 055</b>	<b>-69 486</b>	<b>384 956</b>	<b>540 011</b>
<b>Segment result</b>	<b>-172 799</b>	<b>-67 880</b>	<b>-9 465</b>	<b>-30 654</b>	<b>-2 859</b>	<b>7 664</b>	<b>-26 336</b>	<b>-206</b>	<b>-211 459</b>	<b>-91 076</b>
Unallocated expenses	0	0	0	0	0	0	0	0	-16 716	-15 657
EBIT	0	0	0	0	0	0	0	0	-228 175	-106 733
Net write down of inventory	-144 854	0	0	0	0	0	0	0	-144 854	0
Net investment property revaluation	-71 003	-61 223	0	0	-318	0	0	0	-71 321	-61 223
Depreciation of fixed assets	-840	-1 058	-654	-1 386	-1 330	-1 760	0	326	-3 406	-5 259
Revaluation of financial assets and recognition of negative financial assets as revenues	0	0	0	-4 539	-3 361	-632	0	0	-3 361	-5 171
Financial income	0	0	0	0	0	0	0	0	15 561	56 141
Financial expenses	0	0	0	0	0	0	0	0	-16 098	-41 168
Income tax expense	0	0	0	0	0	0	0	0	-1 235	-10 787
<b>Net profit / loss</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-229 947</b>	<b>-102 547</b>

Segment	Development		Services		Construction		Eliminations		Consolidated	
	9 months 2009	9 months 2008	9 months 2009	9 months 2008	9 months 2009	9 months 2008	9 months 2009	9 months 2008	9 months 2009	9 months 2008
in EUR, thousands										
Sales revenue outside the Group	5 588	10 494	1 534	5 304	9 060	16 646	0	0	16 183	32 445
<i>Change</i>	-47%	-58%	-71%	-33%	-46%	118%	0	0	-50%	-15%
Other business revenue outside the Group	8 367	1 987	14	75	40	6	0	0	8 420	2 068
Revenue and other income from other segments	4	26	284	405	2 081	4 010	-2 368	-4 441	0	0
<b>Total revenue and other income</b>	<b>13 959</b>	<b>12 507</b>	<b>1 832</b>	<b>5 784</b>	<b>11 181</b>	<b>20 662</b>	<b>-2 368</b>	<b>-4 441</b>	<b>24 603</b>	<b>34 513</b>
<b>Segment result</b>	<b>-11 044</b>	<b>-4 338</b>	<b>-605</b>	<b>-1 959</b>	<b>-183</b>	<b>490</b>	<b>-1 683</b>	<b>-13</b>	<b>-13 515</b>	<b>-5 821</b>
Unallocated expenses	0	0	0	0	0	0	0	0	-1 068	-1 001
EBIT	0	0	0	0	0	0	0	0	-14 583	-6 821
Net write down of inventory	-9 258	0	0	0	0	0	0	0	-9 258	0
Net investment property revaluation	-4 538	-3 913	0	0	-20	0	0	0	-4 558	-3 913
Depreciation of fixed assets	-54	-68	-42	-89	-85	-112	0	21	-218	-336
Revaluation of financial assets and recognition of negative financial assets as revenues	0	0	0	-290	-215	-40	0	0	-215	-330
Financial income	0	0	0	0	0	0	0	0	995	3 588
Financial expenses	0	0	0	0	0	0	0	0	-1 029	-2 631
Income tax expense	0	0	0	0	0	0	0	0	-79	-689
<b>Net profit / loss</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-14 696</b>	<b>-6 554</b>

Segment	Development		Services		Construction		Eliminations		Consolidated	
	Q3 2009	Q3 2008	Q3 2009	Q3 2008	Q3 2009	Q3 2008	Q3 2009	Q3 2008	Q3 2009	Q3 2008
in EEK, thousands										
Sales revenue outside the Group	32 964	56 332	7 312	22 227	31 980	115 609	0	0	72 256	194 168
<i>Change</i>	-41%		-67%		-72%				-63%	
Other business revenue outside the Group	38 302	578	61	656	335	-212	0	0	38 698	1 022
Revenue and other income from other segments	-1 616	-1 163	1 085	2 217	12 708	1 762	-15 130	-2 816	-2 953	0
<b>Total revenue and other income</b>	<b>69 650</b>	<b>55 747</b>	<b>8 458</b>	<b>25 100</b>	<b>45 023</b>	<b>117 159</b>	<b>-15 130</b>	<b>-2 816</b>	<b>108 001</b>	<b>195 190</b>
<b>Segment result</b>	<b>-135 883</b>	<b>-45 679</b>	<b>1 290</b>	<b>-12 650</b>	<b>1 795</b>	<b>3 696</b>	<b>-26 762</b>	<b>1 734</b>	<b>-159 560</b>	<b>-52 899</b>
Unallocated expenses	0	0	0	0	0	0	0	0	-17 556	-4 666
EBIT	0	0	0	0	0	0	0	0	-177 116	-57 565
Net write down of inventory	-21 357	0	0	0	0	0	0	0	-21 357	0
Net investment property revaluation	-145 423	-44 368	0	0	-318	0	0	0	-145 741	-44 368
Depreciation of fixed assets	-645	-370	-234	-385	-1 085	-615	0	326	-2 079	-1 559
Revaluation of financial assets and recognition of negative financial assets as revenues	0	0	0	-4 539	-3 361	-632	0	0	-3 361	-5 171
Financial income	0	0	0	0	0	0	0	0	420	24 572
Financial expenses	0	0	0	0	0	0	0	0	-25 790	-25 239
Income tax expense	0	0	0	0	0	0	0	0	-426	368
<b>Net profit / loss</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-202 912</b>	<b>-57 864</b>

Segment	Development		Services		Construction		Eliminations		Consolidated	
	Q3 2009	Q3 2008	Q3 2009	Q3 2008	Q3 2009	Q3 2008	Q3 2009	Q3 2008	Q3 2009	Q3 2008
in EUR, thousands										
Sales revenue outside the Group	2 107	3 600	467	1 421	2 044	7 389	0	0	4 618	12 410
<i>Change</i>	-41%		-67%		-72%				-63%	
Other business revenue outside the Group	2 448	37	4	42	21	-14	0	0	2 473	65
Revenue and other income from other segments	-103	-74	69	142	812	113	-967	-180	-189	0
<b>Total revenue and other income</b>	<b>4 452</b>	<b>3 563</b>	<b>540</b>	<b>1 605</b>	<b>2 877</b>	<b>7 488</b>	<b>-967</b>	<b>-180</b>	<b>6 902</b>	<b>12 475</b>
<b>Segment result</b>	<b>-8 685</b>	<b>-2 919</b>	<b>82</b>	<b>-808</b>	<b>115</b>	<b>236</b>	<b>-1 710</b>	<b>111</b>	<b>-10 198</b>	<b>-3 381</b>
Unallocated expenses	0	0	0	0	0	0	0	0	-1 122	-298
EBIT	0	0	0	0	0	0	0	0	-11 320	
Net write down of inventory	-1 365	0	0	0	0	0	0	0	-1 365	-3 679
Investment property revaluation	-9 294	-2 836	0	0	-20	0	0	0	-9 315	-2 836
Depreciation of fixed assets	-41	-24	-15	-25	-69	-39	0	21	-133	-100
Revaluation of financial assets and recognition of negative financial assets as revenues	0	0	0	-290	-215	-40	0	0	-215	-330
Financial income	0	0	0	0	0	0	0	0	27	1 570
Financial expenses	0	0	0	0	0	0	0	0	-1 648	-1 613
Income tax expense	0	0	0	0	0	0	0	0	-27	24
<b>Net profit / loss</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-12 968</b>	<b>-3 698</b>

### 3. Cost of sales

	EEK		EEK	
	9 months 2009	9 months 2008	Q3 2009	Q3 2008
in thousands				
Acquisition costs of sold properties	-46 836	-110 424	-15 290	-33 096
Construction services purchased	-144 850	-221 340	-42 989	-103 808
Property administration costs	-14 132	-12 192	-4 948	-3 621
Personnel expenses	-27 854	-63 462	-8 889	-17 516
Vehicle expenses	-3 580	-6 336	-2 165	-1 786
Depreciation, amortisation and impairment losses (Notes 13, 14)	-1 500	-1 840	-449	-279
Write down of inventory	-135 067	0	-26 143	0
Other expenses	-1 980	-15 119	-61	-7 874
<b>Total cost of sales</b>	<b>-375 799</b>	<b>-430 713</b>	<b>-100 934</b>	<b>-167 980</b>
	EUR		EUR	
	9 months 2009	9 months 2008	Q3 2009	Q3 2008
in thousands				
Acquisition costs of sold properties	-2 993	-7 057	-977	-2 115
Construction services purchased	-9 258	-14 146	-2 747	-6 635
Property administration costs	-903	-779	-316	-231
Personnel expenses	-1 780	-4 056	-568	-1 119
Vehicle expenses	-229	-405	-138	-114
Depreciation, amortisation and impairment losses (Notes 13, 14)	-96	-118	-29	-18
Write down of inventory	-8 632	0	-1 671	0
Other expenses	-127	-966	-4	-503
<b>Total cost of sales</b>	<b>-24 018</b>	<b>-27 527</b>	<b>-6 450</b>	<b>-10 735</b>

<sup>1</sup> Dwelling development projects presented as inventories have been written down as the actual sales transactions are made at 10-20% lower level compared to the stand of 31.12.2008.

### 4. Other operating items

#### Other operating income

	EEK		EEK	
	9 months 2009	9 months 2008	Q3 2009	Q3 2008
in thousands				
Gain or loss from change in fair value of property investment <sup>12</sup> (Note 12)	101 538	29 903	16 835	-13
Gain from property sales	1 082	617	-677	617
Gain from the sales of property, plant and equipment	249	42	-5	4
Other income	5 909	1 802	460	414
<b>Total other operating income</b>	<b>108 778</b>	<b>32 364</b>	<b>16 613</b>	<b>1 022</b>
	EUR		EUR	
	9 months 2009	9 months 2008	Q3 2009	Q3 2008
in thousands				
Gain or loss from change in fair value of property investment <sup>12</sup> (Note 12)	6 489	1 911	1 076	-1
Gain from property sales	69	39	-43	39
Gain from the sales of property, plant and equipment	16	3	0	0
Other income	378	115	29	26
<b>Total other operating income</b>	<b>6 952</b>	<b>2 068</b>	<b>1 062</b>	<b>64</b>

<sup>1</sup> Due to changes in plans of the management board, the property at Baltazers 3 was reclassified from inventories to investment property and revaluated to a fair value.

## Other operating expenses

	EEK		EEK	
	9 months 2009	9 months 2008	Q3 2009	Q3 2008
in thousands				
Gain or loss from change in fair value of property investment <sup>12</sup> (Note 12) <sup>1</sup>	-172 859	-91 126	-162 576	-44 351
Asset management	-81	0	0	0
Eliminations	-1 304	-80	0	-63
Fines and penalties	-666	-2 414	-364	-563
Other expenses	-1 711	-690	-510	-228
<b>Total other operating expenses</b>	<b>-176 621</b>	<b>-94 310</b>	<b>-163 450</b>	<b>-45 205</b>

	EUR		EUR	
	9 months 2009	9 months 2008	Q3 2009	Q3 2008
in thousands				
Gain or loss from change in fair value of property investment <sup>12</sup> (Note 12) <sup>1</sup>	-11 048	-5 824	-10 391	-2 835
Asset management	-5	0	0	0
Eliminations	-83	-5	0	-4
Fines and penalties	-43	-154	-23	-36
Other expenses	-109	-44	-33	-15
<b>Total other operating expenses</b>	<b>-11 288</b>	<b>-6 027</b>	<b>-10 447</b>	<b>-2 890</b>

<sup>1</sup> Loss from change in fair value of property investment includes, amongst others, as an event after the balance sheet date, the loss from the transfer of holding in a transaction where the Group transferred its 50% holding in AS Tallinna Olümpiapurjespordikeskus, a 37,5% holding in OÜ Floriston Grupp, and a 50% holding in OÜ Arco Ärikeskus. The influence of the transaction to the loss was recognised in the results of the 9-month period as impairment loss in the relevant project related companies in a total amount of 134,407 thousand kroons (8,590 thousand euros).

## 5. Selling and distribution costs

	EEK		EEK	
	9 months 2009	9 months 2008	Q3 2009	Q3 2008
in thousands				
Promotion expenses	-1 804	-8 988	-616	-1 871
Brokerage	-579	-41	-66	-35
Market surveys	-26	-187	-14	-99
Personnel expenses	-633	-1 589	-556	-388
Other selling and distribution costs	-278	-971	-69	-145
<b>Total selling and distribution costs</b>	<b>-3 320</b>	<b>-11 776</b>	<b>-1 321</b>	<b>-2 538</b>

	EUR		EUR	
	9 months 2009	9 months 2008	Q3 2009	Q3 2008
in thousands				
Promotion expenses	-115	-574	-39	-120
Brokerage	-37	-3	-4	-2
Market surveys	-2	-12	-1	-6
Personnel expenses	-40	-102	-36	-25
Other selling and distribution costs	-18	-62	-4	-9
<b>Total selling and distribution costs</b>	<b>-212</b>	<b>-753</b>	<b>-84</b>	<b>-162</b>

## 6. Administrative expenses

	EEK		EEK	
	9 months 2009	9 months 2008	Q3 2009	Q3 2008
in thousands				
Personnel expenses	-29 675	-51 862	-8 060	-17 029
Office expenses	-10 599	-22 740	-2 956	-6 938
Legal and consulting fees	-4 807	-15 425	-1 416	-3 089
Depreciation, amortisation and impairment losses (Notes 13, 14)	-1 905	-3 512	-578	-1 372
Goodwill adjustments and recognition as revenues (Note 14)	-3 725	-5 171	-3 725	-5 171
Allowance for doubtful receivable	-77	-1 716	-95	-6
Vehicle expenses	-4 073	-7 102	-1 309	-2 468
Other expenses	-2 530	-2 417	-1 273	-959
<b>Total administrative expenses</b>	<b>-57 391</b>	<b>-109 945</b>	<b>-19 412</b>	<b>-37 032</b>

	EUR		EUR	
	9 months 2009	9 months 2008	Q3 2009	Q3 2008
in thousands				
Personnel expenses	-1 897	-3 315	-515	-1 088
Office expenses	-677	-1 453	-189	-443
Legal and consulting fees	-307	-986	-90	-197
Depreciation, amortisation and impairment losses (Notes 13, 14)	-122	-224	-37	-88
Goodwill adjustments and recognition as revenues (Note 14)	-238	-330	-238	-330
Allowance for doubtful receivable	-5	-110	-6	0
Vehicle expenses	-260	-454	-84	-158
Other expenses	-162	-155	-81	-61
<b>Total administrative expenses</b>	<b>-3 668</b>	<b>-7 027</b>	<b>-1 240</b>	<b>-2 365</b>

## 7. Financial items

### Finance income

	EEK		EEK	
	9 months 2009	9 months 2008	Q3 2009	Q3 2008
in thousands				
Interest income	8 723	45 104	296	14 601
Foreign exchange gains	4 153	9 987	117	9 970
Income on other non-current financial assets	2 685	1 050	7	1
<b>Total finance income</b>	<b>15 561</b>	<b>56 141</b>	<b>420</b>	<b>24 572</b>

	EUR		EUR	
	9 months 2009	9 months 2008	Q3 2009	Q3 2008
in thousands				
Interest income	558	2 883	19	933
Foreign exchange gains	265	638	8	637
Income on other non-current financial assets	172	67	0	0
<b>Total finance income</b>	<b>995</b>	<b>3 588</b>	<b>27</b>	<b>1 570</b>

**Finance expenses**

	EEK		EEK	
	9 months 2009	9 months 2008	Q3 2009	Q3 2008
in thousands				
Losses on sale of investments in subsidiaries	-4 771	-1 533	-4 771	1
Gains on sale of investment property	0	-35 086	0	-17 144
Interest expenses	-32 755	-22 512	-10 848	-8 013
Expenses on other non-current financial assets	451	-2 551	462	-37
Foreign exchange losses	-6 579	-4 744	-6 555	-56
Impairment losses on financial assets	27 556	25 258	-4 078	10
<b>Total finance expenses</b>	<b>-16 098</b>	<b>-41 168</b>	<b>-25 790</b>	<b>-25 239</b>
	EUR		EUR	
	9 months 2009	9 months 2008	Q3 2009	Q3 2008
in thousands				
Losses on sale of investments in subsidiaries	-305	-98	-305	0
Gains on sale of investment property	0	-2 242	0	-1 095
Interest expenses	-2 093	-1 439	-693	-512
Expenses on other non-current financial assets	29	-163	30	-3
Foreign exchange losses	-420	-303	-419	-4
Impairment losses on financial assets	1 760	1 614	-261	1
<b>Total finance expenses</b>	<b>-1 029</b>	<b>-2 631</b>	<b>-1 648</b>	<b>-1 613</b>

<sup>1</sup> Impairment losses on financial assets in 2009 include the impairment of the annulled claim from 2008 related to the joint company Bisumuizas Nami SIA in the amount of 34,167 thousand kroons (2,183 thousand euros).

**8. Basic and diluted earnings per share**

*Basic net profit (loss) per share* has been calculated by dividing the net profit of the period with the weighted average of outstanding shares. According to clause 283 of the Commercial Code, own shares do not grant to a public limited company any shareholder's rights, thus, they are not included in calculating the weighted average of ordinary shares.

As of 30.09.2009, the company has 450,000 own shares.

Aggregate profit distribution for the period:	EEK		EEK	
	9 months 2009	9 months 2008	Q3 2009	Q3 2008
Weighted average number of ordinary shares outstanding (pcs.)	94 834 150	95 166 077	94 834 150	95 166 077
Depreciation, amortisation and impairment losses	-228 602	-109 743	-203 453	-57 814
<b>Goodwill adjustments and goodwill recording as revenues</b>	<b>-2.41</b>	<b>-1.15</b>	<b>-2.15</b>	<b>-0.61</b>
	EUR		EUR	
	9 months 2009	9 months 2008	Q3 2009	Q3 2008
Exchange rate differences in converting foreign company	94 834 150	95 166 077	94 834 150	95 166 077
Depreciation, amortisation and impairment losses	-14 610	-7 014	-13 003	-3 695
<b>Goodwill adjustments and goodwill recording as revenues</b>	<b>-0.15</b>	<b>-0.07</b>	<b>-0.14</b>	<b>-0.04</b>

*Diluted net profit (loss)* is calculated by taking into account potentially issued shares. As of the balance sheet date (30.09.2009), the Group had no potentially issued ordinary shares, wherefore the diluted net profit (loss) of the quarter was equal to the regular net profit.

## 9. Receivables

### Short-term receivables

	EEK		EUR	
	30.09.2009	31.12.2008	30.09.2009	31.12.2008
in thousands				
<b>Trade receivables</b>				
Receivables from customers	79 986	96 263	5 112	6 152
Allowance for doubtful receivables	-6 060	-5 936	-387	-379
<b>Total trade receivables</b>	<b>73 926</b>	<b>90 327</b>	<b>4 725</b>	<b>5 773</b>
<b>Other short-term receivables</b>				
Losses on sale of investments in joint ventures	0	17 090	0	1 092
Loans granted	99 074	94 563	6 332	6 044
Other short-term receivables	28 098	28 765	1 796	1 839
<b>Miscellaneous expenses</b>	<b>127 172</b>	<b>140 418</b>	<b>8 128</b>	<b>8 975</b>
<b>Accrued income</b>				
Interest receivable	3 696	1 329	236	85
Due from customers under long-term construction contracts	10 915	7 612	698	487
VAT prepayments and reclaims	25 605	53 034	1 636	3 389
Other accrued income	6 282	1 632	401	104
<b>Total accrued income</b>	<b>46 498</b>	<b>63 607</b>	<b>2 971</b>	<b>4 065</b>
<b>Total current receivables</b>	<b>247 596</b>	<b>294 352</b>	<b>15 824</b>	<b>18 813</b>

### Non-current receivables

	EEK		EUR	
	30.09.2009	31.12.2008	30.09.2009	31.12.2008
in thousands				
Losses on sale of investments in joint ventures	4 311	5 750	276	367
Long-term loan receivables	2 950	254	189	16
Expenses on other non-current financial assets	0	0	0	0
Other non-current receivables	141	667	8	44
<b>Total non-current receivables</b>	<b>7 402</b>	<b>6 671</b>	<b>473</b>	<b>427</b>

## 10. Inventories

	EEK		EUR	
	30.09.2009	31.12.2008	30.06.2009	31.12.2008
in thousands				
Properties purchased and developed for resale	740 663	785 906	47 337	50 229
Other goods purchased for resale	14 426	4 806	922	307
Materials and finished goods	2 983	62	191	4
Prepayments to suppliers	29 154	58 666	1 863	3 749
<b>Total inventories</b>	<b>787 226</b>	<b>849 440</b>	<b>50 313</b>	<b>54 289</b>



## 11. Transactions with parts of subsidiaries, joint and related companies

### Increasing the shareholding in Bišumuiža Nami SIA

Arco Investeeringute AS, a subsidiary of Arco Vara AS, increased its shareholding in the joint company Bišumuiža Nami SIA from 40% to 49.38%. The shareholding was increased in kind. After the transaction, the 50.0% owner of Bišumuiža Nami SIA is SIA Linstow Baltic, owner of 49.38 % shares is Arco Investeeringute AS, and owner of 0.62% shares is SIA Mazais Baltezers. As a result of the transaction SIA Mazais Baltezers has a termless option to buy from Arco Investeeringute AS a 9.38% shareholding at nominal price.

### Impact of increase in shareholding to the Group:

	EEK	EUR
in thousands		
Cash and cash equivalents	1 464	94
Receivables	119	8
Inventories	27 734	1 773
Current liabilities	55	4
Non-current liabilities	20 551	1 313

### Transfer of holdings of Arco Vara Puukooli OÜ

Arco Vara AS transferred its 100% holding in Arco Vara Puukool OÜ. This was aimed at removing additional activities from the main activities of the Group. Arco Vara Puukool OÜ was specialised to the production of forest plants. The 100% holding of Arco Vara Puukool OÜ was obtained by Metsamarket OÜ (member of the Board: Lehar Lindre). It is not a transaction with a related person for the purposes of the article 7.9 of the Tallinn Stock Exchange „Requirements for Issuers“. Lehar Lindre was a member of the board in the 100% subsidiary Arco Vara Puukool OÜ.

The cost of the transaction was 600 thousands kroons (38 thousand euros). The transaction will not have any significant influence to the operations of the Arco Vara group, nor can it be considered as a transfer of substantial part.. The members of Arco Vara AS supervisory board and members of the board have no personal interest in the transaction..

Company	%	EEK		EUR	
		Size of transferred holdings in the Group	Sales price	Gain or loss from transfer	Sales price
in thousands					
<b>Subsidiaries</b>					
Arco Vara Puukool OÜ	100	600	-4 771	38	-305
<b>Total</b>		<b>600</b>	<b>-4 771</b>	<b>38</b>	<b>-305</b>

### **Influence of Arco Vara Puukool OÜ to the assets of the group!**

	EEK	EUR
in thousands		
Cash and cash equivalents	-218	-14
Other current assets	-1 502	-96
Property, plant and equipment (note 13)	-4 899	-317
Current liabilities	-1 249	-80
Non-current liabilities	-413	-26

## 12. Investment property

	EEK	EUR
in thousands		
<b>As at 31.12.2007</b>	<b>999 999</b>	<b>63 912</b>
Acquisitions	1 277	82
Disposals	-31 682	-2 025
Disposals through sales of a holding of subsidiary and transformation of it to joint venture	0	0
Transfer to inventories	0	0
Transfer from property, plant and equipment (Note)	20 042	1 281
Gain or loss on change in fair value (Annex 3)	-61 223	-3 913
<b>As at 30.09.2008</b>	<b>928 413</b>	<b>59 337</b>
<b>As at 31.12.2008</b>	<b>542 753</b>	<b>34 688</b>
Acquisitions	49 033	3 134
Disposals	-2 779	-178
Transfer from property, plant and equipment	15 244	974
Gain or loss on change in fair value (Note)	-71 321	-4 558
<b>As at 30.09.2009</b>	<b>532 930</b>	<b>34 060</b>

## 13. Property, plant and equipment

	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction and prepayments	Total property, plant and equipment
in EEK, thousands					
<b>Carrying amount 31.12.2007</b>	<b>26 940</b>	<b>5 134</b>	<b>7 983</b>	<b>101 806</b>	<b>141 863</b>
Additions	313	793	1 595	23 908	26 609
Capitalised borrowings costs	0	0	0	13 822	13 822
Additions through business combinations	0	2 559	59	0	2 618
Disposals	0	-300	-784	0	-1 084
Disposals through divestment of subsidiaries	0	-58	-281	0	-339
Transfer to non-current assets held for sale	-1 701	0	0	0	-1 701
Transfer to investment property (Note 12)	0	0	0	-20 029	-20 029
Depreciation charge (Note 3,6)	-1 679	-1 384	-1 764	0	-4 827
<b>Carrying amount 30.09.2008</b>	<b>23 873</b>	<b>6 744</b>	<b>6 808</b>	<b>119 507</b>	<b>156 932</b>
<i>incl. acquisition costs</i>	<i>35 636</i>	<i>12 588</i>	<i>13 868</i>	<i>119 507</i>	<i>181 599</i>
<i>incl. accumulated amortisation</i>	<i>-11 763</i>	<i>-5 844</i>	<i>-7 060</i>	<i>0</i>	<i>-24 667</i>
<b>Carrying amount 31.12.2008</b>	<b>22 115</b>	<b>2 496</b>	<b>6 537</b>	<b>10 664</b>	<b>41 812</b>
Additions	3 151	697	151	4 966	8 965
Capitalised borrowings costs	0	0	0	0	0
Disposals	-2 664	-717	-761	0	-4 142
Disposals through divestment of subsidiaries (Note 11)	-2 902	-716	-1 281	0	-4 899
Transfer to investment property (Note 12)	0	0	0	-15 244	-15 244
Depreciation charge (Note 3,6)	-1 339	-339	-1 545	0	-3 223
<b>Carrying amount 30.09.2009</b>	<b>18 361</b>	<b>1 421</b>	<b>3 101</b>	<b>386</b>	<b>23 269</b>
<i>incl. acquisition costs</i>	<i>26 533</i>	<i>5 815</i>	<i>10 304</i>	<i>386</i>	<i>43 038</i>
<i>incl. accumulated amortisation</i>	<i>-8 172</i>	<i>-4 394</i>	<i>-7 203</i>	<i>0</i>	<i>-19 769</i>

	Land and buildings	Plant and equipment	Other items of property, plant and equipment	Assets under construction and prepayments	Total property, plant and equipment
in EUR, thousands					
<b>Carrying amount 31.12.2007</b>	<b>1 722</b>	<b>328</b>	<b>510</b>	<b>6 507</b>	<b>9 067</b>
Additions	20	51	102	1 527	1 700
Capitalised borrowings costs	0	0	0	882	882
Additions through business combinations	0	164	4	0	168
Disposals	0	-19	-50	0	-69
Disposals through divestment of subsidiaries	0	-4	-18	0	-22
Transfer to non-current assets held for sale	-109	0	0	0	-109
Transfer to investment property (Note 12)	0	0	0	-1 280	-1 280
Depreciation charge (Note 3,6)	-107	-88	-113	0	-308
<b>Carrying amount 30.09.2008</b>	<b>1 526</b>	<b>431</b>	<b>435</b>	<b>7 638</b>	<b>10 029</b>
<i>incl. acquisition costs</i>	<i>2 278</i>	<i>805</i>	<i>886</i>	<i>7 638</i>	<i>11 607</i>
<i>incl. accumulated amortisation</i>	<i>-752</i>	<i>-373</i>	<i>-451</i>	<i>0</i>	<i>-1 576</i>
<b>Carrying amount 31.12.2008</b>	<b>1 413</b>	<b>159</b>	<b>417</b>	<b>682</b>	<b>2 671</b>
Additions	201	45	10	317	573
Disposals	-170	-46	-49	0	-265
Disposals through divestment of subsidiaries (Note 11)	-185	-46	-82	0	-313
Transfer to investment property (Note 12)	0	0	0	-974	-974
Depreciation charge (Note 3,6)	-86	-22	-99	0	-206
<b>Carrying amount 30.09.2009</b>	<b>1 173</b>	<b>90</b>	<b>197</b>	<b>25</b>	<b>1 486</b>
<i>incl. acquisition costs</i>	<i>1 696</i>	<i>372</i>	<i>659</i>	<i>25</i>	<i>2 751</i>
<i>incl. accumulated amortisation</i>	<i>-522</i>	<i>-281</i>	<i>-460</i>	<i>0</i>	<i>-1 263</i>

## 14. Intangible assets

	Goodwill	Software	Total intangible assets
in EEK, thousands			
<b>Carrying amount 31.12.2007</b>	<b>23 957</b>	<b>1 548</b>	<b>25 505</b>
Additions	0	482	482
Additions through business combinations	632	-1	631
Disposals through divestment of subsidiaries and interests in jointly controlled entities	-4 014	-195	-4 209
Fair value adjustment	-5 171	0	-5 171
Depreciation charge (Note 3,6)	0	-432	-432
<b>Carrying amount 30.09.2008</b>	<b>15 404</b>	<b>1 402</b>	<b>16 806</b>
<i>incl. acquisition costs</i>	<i>15 404</i>	<i>2 933</i>	<i>18 337</i>
<i>incl. accumulated amortisation</i>	<i>0</i>	<i>-1 531</i>	<i>-1 531</i>
<b>Carrying amount 31.12.2008</b>	<b>11 855</b>	<b>620</b>	<b>12 475</b>
Sales and introduction	-459	410	-49
Disposals through divestment of subsidiaries and interests in jointly controlled entities	-500	0	-500
Fair value adjustment	-3 361	0	-3 361
Depreciation charge (Note 3,6)	0	-183	-183
<b>Carrying amount 30.09.2009</b>	<b>7 535</b>	<b>847</b>	<b>8 382</b>
<i>incl. acquisition costs</i>	<i>7 535</i>	<i>2 456</i>	<i>9 991</i>
<i>incl. accumulated amortisation</i>	<i>0</i>	<i>-1 609</i>	<i>-1 609</i>

	Goodwill	Software	Total intangible assets
in EUR, thousands			
<b>Carrying amount 31.12.2007</b>	<b>1 531</b>	<b>99</b>	<b>1 630</b>
Additions	0	31	31
Additions through business combinations	40	0	40
Disposals through divestment of subsidiaries and interests in jointly controlled entities	-257	-12	-269
Fair value adjustment	-330	0	-330
Depreciation charge (Notes 3, 4, 6)	0	-28	-28
<b>Carrying amount 30.09.2008</b>	<b>984</b>	<b>90</b>	<b>1 074</b>
<i>incl. acquisition costs</i>	<i>984</i>	<i>186</i>	<i>1 170</i>
<i>incl. accumulated amortisation</i>	<i>0</i>	<i>-98</i>	<i>-98</i>
<b>Carrying amount 31.12.2008</b>	<b>758</b>	<b>39</b>	<b>797</b>
Sales and liquidation	-29	26	-3
Disposals through divestment of subsidiaries and interests in jointly controlled entities	-32	0	-32
Fair value adjustment	-215	0	-215
Depreciation charge (Note 3,6)	0	-12	-12
<b>Carrying amount 30.09.2009</b>	<b>482</b>	<b>54</b>	<b>536</b>
<i>incl. acquisition costs</i>	<i>482</i>	<i>157</i>	<i>639</i>
<i>incl. accumulated amortisation</i>	<i>0</i>	<i>-103</i>	<i>-103</i>

## 15. Loans and borrowings

	30.09.2009		31.12.2008	
	Total	Including current portion	Total	Including current portion
in EEK, thousands				
Debt securities	26 208	26 208	59 303	59 303
Bank loan	899 156	405 760	911 946	256 095
Finance lease liabilities	3 800	1 189	5 462	1 708
Other loans	42 497	28 705	69 625	36 311
<b>Total</b>	<b>971 661</b>	<b>461 862</b>	<b>1 046 336</b>	<b>353 417</b>
in EUR, thousands				
Debt securities	1 675	1 675	3 790	3 790
Bank loan	57 466	25 932	58 284	16 367
Finance lease liabilities	243	76	349	109
Other loans	2 716	1 835	4 450	2 321
<b>Total</b>	<b>62 100</b>	<b>29 518</b>	<b>66 873</b>	<b>22 587</b>

## 16. Payables and other liabilities

### Payables

	EEK		EUR	
	30.09.2009	31.12.2008	30.09.2009	31.12.2008
in thousands				
<b>Trade payables</b>	65 388	75 454	4 179	4 822
<b>Miscellaneous payables</b>				
Liabilities from securities transactions	15 464	16 775	988	1 072
Miscellaneous payables	8 746	790	559	50
<b>Total other payables</b>	<b>24 210</b>	<b>17 565</b>	<b>1 547</b>	<b>1 122</b>
<b>Tax payable</b>				
Value added tax	556	3 099	36	198
Personal income tax	1 134	2 053	73	131
Social tax	1 948	3 569	124	228
Other taxes	3 634	2 228	232	142
<b>Total taxes payable</b>	<b>7 272</b>	<b>10 949</b>	<b>465</b>	<b>700</b>
<b>Accrued expenses</b>				
Interest payable	8 548	10 054	546	643
Payables to employees	7 820	8 871	500	567
Dividends payable	455	1 232	29	79
Other accrued expenses	4 492	8 552	287	547
<b>Total accrued expenses</b>	<b>21 315</b>	<b>28 709</b>	<b>1 362</b>	<b>1 836</b>
<b>Total payables</b>	<b>118 185</b>	<b>132 677</b>	<b>7 553</b>	<b>8 480</b>

### Non-current liabilities

	EEK		EUR	
	30.09.2009	31.12.2008	30.09.2009	31.12.2008
in thousands				
Liabilities from securities transactions	0	248	0	16
Deposits received	1 100	1 402	70	89
Miscellaneous long-term liabilities	4 284	2 754	274	176
<b>Total non-current liabilities</b>	<b>5 384</b>	<b>4 404</b>	<b>344</b>	<b>281</b>

## 17. Transactions with related parties

	EEK		EUR	
	9 months 2009 or 30.09.2009	9 months 2008 or 31.12.2008	9 months 2009 or 30.09.2009	9 months 2008 or 31.12.2008
in thousands				
<b>Transactions with joint companies<sup>1</sup></b>				
Sales revenue	6	1 962	0	125
Services purchased	0	-19	0	-1
Short-term loan receivables	3 849	13 855	246	885
Long-term loan receivables	0	5 750	0	367
Trade receivables	462	1 030	30	66
Short-term interest receivables	0	2 205	0	141
<b>Transactions with companies having joint control over Group companies</b>				
Equity acquisition	10 190	0	651	0
Services purchased	0	-334	0	-21
Other short-term receivables	12 343	13 348	789	853
Short-term interest receivables	2 467	0	158	0
Short-term loan receivables	3 828	16 377	245	1 047
Dividends payable	2 454	0	157	0
Trade payables	0	368	0	24
Interest payable	0	968	0	62
Long-term loan liabilities	5 750	0	367	0
<b>Transactions with key staff of the Group and the Group's management</b>				
Sales revenue <sup>2</sup>	600	9 810	38	627
Trade receivables	0	262	0	17
Short-term loan receivables	313	85	20	5
Interest payable	21	0	1	0
<b>Miscellaneous long-term liabilities</b>				
Sales revenue	0	170	0	11
Services purchased	298	-2	19	0
Other short-term receivables	3 838	0	245	0
Other short-term liabilities	15 464	0	988	0
Short-term loan receivables	10 427	11 424	666	730
Long-term loan liabilities	5 998	31 151	383	1 991

<sup>1</sup> On 9 March 2009 Arco Ehitus, a subsidiary of Arco Vara, concluded a sales agreement under the law of obligations for acquisition by instalments of the office building at Odra Street 16 / Jakobi Street 29 in Tallinn. The former owner of the office building is OÜ Euro Shipping related to Richard Tomingas, member of the supervisory board of Arco Vara. Arco Ehitus has been the main tenant of the building for the last five years and paid rent to OÜ Euro Shipping. There are other tenants in the building. The cost of the transaction was 10,190 thousand kroons (651 thousand euros), the major part of which will be paid at the end of 2011. Pindi Kinnisvara, an independent valuator, estimated the market value of the property on 19.02.2009 to 10,700 thousand kroons (684 thousand euros).

<sup>2</sup> Arco Vara AS transferred its 100% holding in Arco Vara Puukool OÜ. This was aimed at removing additional activities from the main activities of the Group. Arco Vara Puukool OÜ was specialised to the production of forest plants. The 100% holding of Arco Vara Puukool OÜ was obtained by Metsamarket OÜ (member of the Board: Lehar Lindre). Lehar Lindre was a member of the board in the 100% subsidiary Arco Vara Puukool OÜ.

The cost of the transaction was 600 thousands kroons (38 thousand euros). The transaction will not have any significant influence to the operations of the Arco Vara group, nor can it be considered as a transfer of substantial part.. The members of Arco Vara AS supervisory board and members of the board have no personal interest in the transaction.. See also Note 11.

The remuneration of the Group's management board for the 9 month of 2009, including associated taxes, totalled 4.9 million kroons (0.3 million euros). In 2008, the same indicator amounted to 7.9 million kroons (0.5 million euros).

## **18. Contingent liabilities**

### **Arco Vara AS and Arco Ehitus OÜ claims against OÜ Tempera Ehitus**

On 26.02.2009 OÜ Tempera Ehitus OÜ was declared bankrupt by a decision of the Harju County Court.

On 04.03.2009 Arco Vara AS submitted its statement of claim. The amount of Arco Vara AS claim is 2,343 thousand kroons (150 thousand euros), based on the credit agreement of 07.08.2008.

On 09.03.2009 Arco Ehitus OÜ submitted its statement of claim. The total amount of Arco Ehituse OÜ claim is 2,371 thousand kroons (152 thousand euros), based on the loan agreement and the site management and construction service agreement.

On 25.03.2009 the first creditors meeting was held. The general meeting decided to not appoint Maire Arm as official liquidator. On 03.04.2009 the creditors submitted a joint list of preferred liquidators. On 09.04.2009 the court appointed Katrin Prükk as new official liquidator.

Based on the liquidator's report, the total liabilities of the debtor amount to 13,588 thousand kroons (868 thousand euros), but there is no tangibles. Therefore, the management board considers it unlikely that Arco Vara AS and Arco Ehitus OÜ are paid the debts of OÜ Tempera Ehitus (bankrupt).

Compared to the previous reporting period, there have been no changes or developments in the proceeding. At present, the bankruptcy proceedings are going on.

### **Arco Investeeringute AS action against AS Ühendatud Kapital**

Arco Investeeringute AS, Sigma Real Estate Ltd and AS Ühendatud Kapital have concluded a memorandum of understanding on 26 February 2009. The purpose of the memorandum is to set out basic conditions and principles for acquisition of a 50% interest in a Cypriot business that owned and maintained the development of trade centres in Ukraine by Arco Vara AS. Based on the memorandum, Arco Investeeringud AS has made a prepayment and given subordinated loans in a total amount of 10,000 US dollars (111,052 thousand kroons; 7,098 thousand euros), that Arco Vara AS is entitled to recall and that is secured by a guarantee by AS Ühendatud Kapital. Considering that AS Ühendatud Kapital and Sigma Real Estate Ltd did not agree with a compromise proposal by Arco Investeeringute AS to set a supplementary security and postpone the debt, the realisation of AS Ühendatud Kapital guarantee was started.

On 19.02.2009, Arco Investeeringute AS filed a statement of claim at the Court of Arbitration of the Estonian Chamber of Commerce and Industry to collect 10,907 thousand US dollars (113,157 thousand kroons; 7 232 thousand euros) from AS Ühendatud Kapital, and an application for securing the claim. The Council of the Court of Arbitration of Estonian Chamber of Commerce and Industry forwarded the application of Arco Vara AS to secure the claim to the Harju County Court and the court issued an order according to which the claim is secured to full extent requested in the application.

In order to secure the claim by Arco Vara AS the Harju Country Court set prohibition notations to the disposal of shares, attached the financial assets of the debtor in Estonian credit institutions, and established a mortgage to the properties of the company.

On 12.03.2009 AS Ühendatud Kapital filed an appeal against the court ruling to the Harju County Court by claiming that the claim security methods applied by the Harju County Court are extremely cumbersome. Arco Investeeringute AS contested the appeal. On 22.06.2009, the Tallinn District Court made a decision that partially agreed with the AS Ühendatud Kapital appeal against the court ruling, and found that seizure of bank accounts limit company's activity freedom, and that the accounts should be released. Arco Investeeringute AS contested the District Court ruling at the Supreme Court due to the decree of the district court, but on 14.09.2009, the Supreme Court did not satisfy the appeal of Arco Investeeringute AS.

On 08.10.2009, a session of the Court of Arbitration of Estonian Chamber of Commerce and Industry was scheduled but postponed by request of AS Ühendatud Kapital as AS Ühendatud Kapital changed its representative again and asked for additional time for preparing for the session.

On 8.10.2009, Arco Investeeringute AS submitted to the Court of Arbitration of Estonian Chamber of Commerce and Industry an additional application for securing the claim. On 12.10.2009, the court of arbitration made a decision for securing the application and set prohibition notations to the disposal of shares of OÜ Auto Forte Baltic, a subsidiary of AS Ühendatud Kapital.

The Group management believes that the session of the court of arbitration will take place in November and that satisfying the claim of Arco Investeeringute AS is still possible.

On 20.11.2009, the 1st session of the Tallinn Court of arbitration was held the decision of which is expected to be published to parties on 21.12.2009.

#### **Adoption of a detail plan for Narva mnt 67**

On 19 May 2008 a resident of the Liivaoja residential area brought an action for annulment of Resolution No 72 *Adoption of a Detail Plan for Narva mnt 67 in the City Centre* passed by Tallinn City Council on 17 April 2008, filing also a request for the application of provisional legal protection. According to the complainant, the detail plan adopted for the property known as the Tivoli plot is unlawful and violates the rights of the complainant.

Since the property belongs to Arco Investeeringute AS, the Group is involved in the proceedings as a third party.

On 8 July 2008 Tallinn Administrative Court ruled that the request for provisional legal protection would be satisfied and execution of Tallinn City Council Resolution 72 of 17.04.2008 would be suspended until the completion of litigation and entry into force of a judicial decision.

On 18 July 2008 both the Tallinn City Council and Arco Investeeringute AS filed an appeal with Tallinn Circuit Court in which they requested annulment of the ruling on provisional legal protection.

The Tallinn Circuit Court heard the appeal against the court ruling on 11 August 2008 and dismissed the appeals by Tallinn City Council and Arco Investeeringute AS.

The Group's management finds the implementation of provisional legal protection unjustified as:

- Long-term loan receivables (note 12)
- The complainant does not follow the principles of good faith.
- Traffic arrangement of the detail plan is in compliance with the comprehensive plan, the plans of neighbouring areas and the relevant standard EVS 843:2003 "Town streets", the traffic solution is adequately motivated in the decision.
- The parking development plan is not administrative legislation of general application but a good practice not obligatory to comply with.
- The arguments of environmental impact assessment are adequate.

On 14 October 2008 Arco Investeeringute AS submitted a request for annulment of the ruling on provisional legal protection to Tallinn Circuit Court. Arco Investeeringute AS and Tallinn City Council agreed to make a compromise in



regard of adding parking spaces to the area subject to the plan, the opinions on the shortcomings of the detail plan as indicated in the ruling on provisional legal protection were also explained and reasoned by documents as well as factually. Yet, the court did not annul the ruling on provisional legal protection.

On 5 May 2009, the Tallinn Administrative Court made a decision in favour of the claim and cancelled the decision by Tallinn City Council by which the detail plan of Narva mnt 67 was established. The decision of the court was based on its earlier standpoints.

On 3 June 2009, Tallinn City Council and on 4 June 2009, Arco Investeeringute AS filed an appeal against the decision of Tallinn Administrative Court of 05.05.2009. The Tallinn District Court scheduled 29.10.2009 for the court session.

On 27.10.2009, the contestor of the detailed plan filed an application of disclaiming to the Tallinn District Court and the court satisfied it by its decree, annulled the decision of Tallinn Administration Court by which the detailed plan of the property was annulled originally, and terminated the proceeding. Thus, the detailed plan of the property at Narva mnt 67 entered into force in its original version.

At the time of preparing the present statement, the court proceeding is terminated.

## **19. Events after the reporting period**

### Arco Vara transferred holdings in 3 joint ventures

On 21 October, Arco Vara transferred 100% of its holdings in Tallinna Olümpiapurjespordikeskuse AS and Arco Ärikeskuse OÜ, which made up 50% of the holding or share capital of both companies, and 75% of its holding in Floriston Grupp OÜ, which made up 37.5% of the holding of the company. Arco Vara will maintain a 12.5% holding in Floriston Grupp OÜ.

The influence of the transaction to the loss was recognised in the results of the 9-month period as impairment loss in the relevant project related companies in a total amount of 138,909 thousand kroons (8,878 thousand euros).

### Calling an extraordinary meeting of shareholders of Arco Vara AS

The extraordinary meeting of shareholders of Arco Vara AS will be held on 11 December 2009. The fourth item on the agenda is making a decision on the reduction of share capital.

#### Reduction of share capital

In order to decrease volatility the price of shares of Arco Vara AS, to provide an opportunity for more efficient pricing of the shares of Arco Vara AS on the stock exchange and to provide an opportunity for further strengthening the capital structure, the supervisory board proposes to reduce the share capital of Arco Vara AS as follows:

4.1. first to reduce the share capital by cancellation of 10 shares so that 5 shares owned by Toletum OÜ (registry code 11011219) and 5 shares owned by HM Investeeringud OÜ (registry code 10963165) (hereinafter together the "Stabilizing shareholders") shall be cancelled; and

4.2. thereafter to reduce the share capital by cancellation of 19/20 of all shares, whereas:

4.2.1. 19/20 of all shares owned by each shareholder shall be cancelled; and

4.2.2. if the number of shares owned by a stabilized shareholder does not enable to cancel whole number of shares, whole number of shares owned by Stabilized shareholder shall be cancelled (rounded downwards) and additionally a number of shares (hereinafter the "Compensation shares"), that the Stabilized shareholder should have owned in order to enable cancellation of whole number of shares without rounding, shall be cancelled from the shares owned by the Stabilizing shareholders (e.g. if the Stabilized shareholder has 30 shares, 28 thereof shall be cancelled (i.e. the

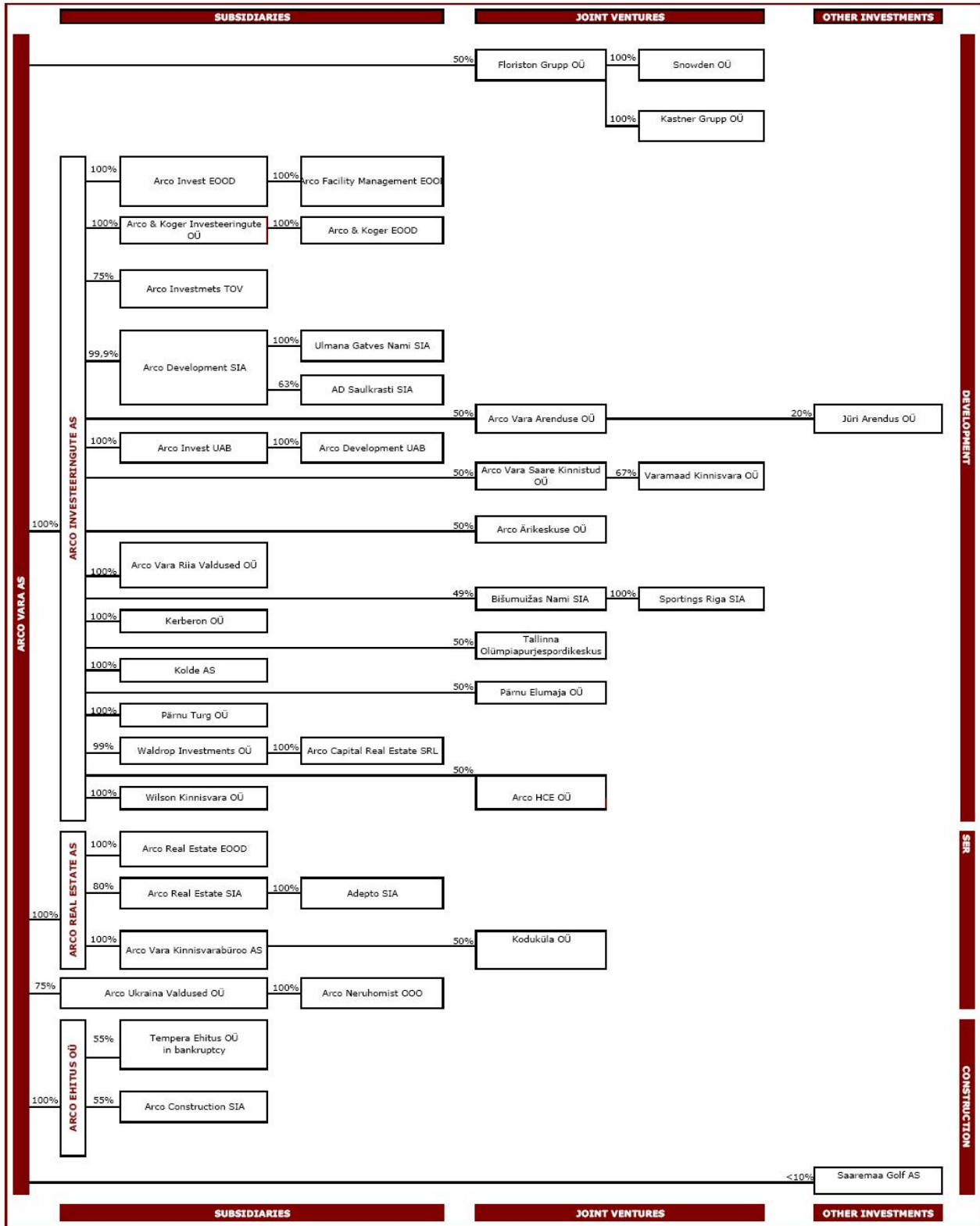
Stabilized shareholder will have 2 shares after the reduction of the share capital) and additionally 10 Compensation shares owned by the Stabilizing shareholders shall be cancelled);

4.2.3. Compensation shares shall be cancelled in equal parts from the shares owned by the Stabilizing shareholders. If the Compensation shares cannot be cancelled in equal parts from the shares owned by the Stabilizing shareholders, then more shares belonging to HM Investeeringud OÜ shall be cancelled.

As a result of the reduction of share capital, the number of all shares will be 4,764,207, i.e. 90,519,943 shares will be cancelled. The extent of the reduction of share capital will be 905,199 thousand kroons (57,853 thousand euros).

## 20. Structure of the group

At 30.09.2009



## Statement by the management board

The management board of Arco Vara AS has prepared the condensed consolidated interim financial statements for the third quarter and nine months presented on pages 2-43.

The interim statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The interim statements give a true and fair view of the financial position, financial performance and cash flows of Arco Vara AS. Arco Vara AS is a going concern.

The condensed consolidated interim financial statements give a correct and fair overview of the important events of the 9 months and their impact to the financial statements and contains a description of main risks and unclarities.

During preparation of the statements, all important circumstances occurred until the preparation date (27. November 2009) have been assessed.



Lembit Tampere

Member of the Management Board

27. November 2009